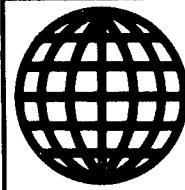


271041

JPRS-CAR-88-053  
7 SEPTEMBER 1988



FOREIGN  
BROADCAST  
INFORMATION  
SERVICE

# JPRS Report—

## China

---

19980701 112

DISTRIBUTION STATEMENT A

Approved for public release;  
Distribution Unlimited

REPRODUCED BY  
U.S. DEPARTMENT OF COMMERCE  
NATIONAL TECHNICAL  
INFORMATION SERVICE  
SPRINGFIELD, VA 22161

DTIC QUALITY INSPECTED 1

10  
65  
A04

# China

JPRS-CAR-88-053

## CONTENTS

7 SEPTEMBER 1988

### INTERNATIONAL

#### SOVIET UNION

Soviet Union Signals Goodwill Toward West Europe .....	1
Article Views Changes in Soviet-East European Relations .....	2

### POLITICAL

Economists Discuss Selection of Reform Strategy .....	5
Hong Xiaoyuan Report on Current, Future Reform .....	7
Shanghai CASS Holds Symposium on Reform, New Concepts .....	8

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

Symposium Discusses Regional Responsibility Contracts .....	10
State Price Agency on Mid-Term Goal of Price Reform .....	18
Participation in 'Great International Circle' .....	25
Exploring Changes in Price Levels .....	27

#### PROVINCIAL

Governor Comments on Gansu's Economic Outlook .....	28
Wen Shizhen's Government Report .....	30

#### SMALL-SCALE ENTERPRISES

Outline of Development of Township Enterprises in Shanghai .....	36
--	----

#### FOREIGN TRADE, INVESTMENT

Organizational Restructuring of Country's Foreign Trade Companies .....	39
Great International Circle, Coastal Development Strategy Differences .....	46
Results of Beijing's Foreign Trade Reform .....	48
Shanghai Urged To Set Up Enterprises Overseas .....	49
'New Trends' in Foreign Investment in Shanghai .....	50
Zhejiang Joint Venture Rules .....	51

#### AGRICULTURE

1987 State Farm Statistics .....	55
Article Discusses Establishing Regulatory Grain Fund .....	58
Beijing Increases Food Production .....	60
Heilongjiang Beet Harvest .....	60

#### MILITARY, PUBLIC SECURITY

Description of Air Force Missile College .....	61
Specifications of HQ-2J Surface-to-Air Missile .....	61
Strategic Missile Communications Disrupted by Thieves .....	61
New Chemical Defense Equipment To Be Issued .....	62
Retired Cadres Settle in Xinjiang .....	62
Nanjing MR Creates Hotline for Economic Crimes .....	62

## SOVIET UNION

### Soviet Union Signals Goodwill Toward West Europe

40050329B Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 11, 1 Jun 88 pp 9-11

[Article by Ran Longbo 0373 7127 0514: "The Soviet Union Waves at West Europe"]

[Text] Since he assumed power, Gorbachev has visited such West European countries as England, France, and Germany, held summit meetings with West European countries showing a new appearance and posture, and changed previous Soviet attitude of focusing on U.S. but ignoring West European leaders. Gorbachev made a rare gesture on the human rights issue by allowing Thatcher and Chirac to meet with Sakharov; is less sensitive and more tolerant than before in developing relations with West Germany and political contacts between East and West Europe; and is actively seeking to develop the relations between Comecon and the EC and has voluntarily restored talks between the two organizations. At the same time, Gorbachev also proposed to West European countries on the construction of "the Great Common Building of Europe." According to Gorbachev's plan, it will be a peaceful and nuclear-free Europe where eastern and western spheres cooperate in an all-around way.

Of course, the most substantial change in Soviet-West European relations still is arms control. In 1977, the Soviet Union deployed SS-20 guided missiles aimed at West Europe, causing West European countries to panic and leading to the escalation of the U.S.-Soviet arms race. To counteract the threat posed by SS-20 guided missiles, West European countries deployed more advanced U.S. guided missiles capable of directly hitting Soviet territory. During this intermediate-range missile war, Gorbachev's performance was more practical than his predecessor. He realized that the deployment of SS-20 missiles was actually a mistake; therefore, he reached an agreement with the United States to eliminate these missiles.

These changes of the Soviet Union have attracted many people's attention. As the subject of such changes, West Europe is of course especially concerned.

Europeans (including right-wing leaders) all believe that Gorbachev is serious about domestic reforms, that the Soviet Union really wants to have dialogue and ease relations with Western countries, and that the Soviet Union does not want, at least for now, to engage in a large-scale arms race with the West. In West Europe, not many people believe that the Soviet Union would actually use arms to attack West Europe. However, though the Soviet image has changed in the minds of West Europeans and Gorbachev resents the comparison of West European-Soviet relations to the story of "Little Red Ridinghood and the Big Bad Wolf," West Europe is

still suspicious of the Soviet Union. To them, the Soviet Union is an economically backward, ideologically loathsome, and militarily scary giant. Maybe the Soviet Union would not go so far as to take West Europe by arms, but its huge military apparatus plus its usual aggressive attitude and its abominable behavior of interfering with and invading other countries have made West European countries, which have only limited power, unable to rest at night. The history of postwar years has proved, say West European leaders, that the Soviet objective is not to take West Europe by force but to squeeze out the United States and dominate Europe.

In order to compete for Europe with the United States, the Soviet Union set forth the slogan of a "three free" Europe—namely free from nuclear weapons, foreign troops, and military alliances. For many years, the Soviet Union has been keeping one eye on the United States and the other on the peace movement and left-wing political parties of West Europe without paying any attention to right-wing political parties in power. In the proposal of constructing the "great common building of Europe," Gorbachev suggests elimination of strategic nuclear weapons and building nuclear-free zones or corridors in Europe. West European countries are fully aware that once nuclear weapons are gone, U.S. troops will not be able to stay in Europe. As soon as the U.S. superpower leaves, Europe will be dominated by another superpower. Therefore, West European countries hold that although Soviet practices have changed in Europe, the objective of Soviet policies on Europe has remained the same.

West European countries are not very interested in the general talks about building the "great common house of Europe." What they are interested in is human rights issue and trade relations and political and cultural exchanges with the Soviet Union and East Europe. Their most concern is still the Soviet advantage over NATO in conventional armed forces.

U.S.-Soviet summit meetings and the signing of INF treaty have created momentum for East-West arms control negotiations and increased people's demand and expectation for the realization of international arms reduction. The Soviet Union used this opportunity to take the offensive by suggesting building a nuclear-free corridor in central Europe and adopt the third "zero option" to eliminate short-range nuclear weapons in Europe during its talk with the United States on reducing strategic nuclear weapons by 50 percent. The Soviet Union will bring up the issue of British and French nuclear forces at an appropriate time. West European countries think that the Soviet proposal should not be accepted because if the talks continue to go in the Soviet way, a nuclear-free West Europe will appear, the Soviet Union will be able to drive the United States out of West Europe without having to use one Soviet soldier, and Europe will come under the threat of another superpower. West European countries oppose holding more talks with the Soviet Union on the issue of European

nuclear weapons and favor negotiating with the Soviet Union on reducing conventional weapons. As a result, during US-Soviet strategic arms reduction talks, the reduction of conventional weapons became the focus of Soviet-West European relations.

West European countries have emphasized for a long time the strong Soviet advantage over NATO in conventional forces. The actual ratios are: 3 to 1 in tanks; 3 to 1 in artillery; 2 to 1 in strategic airplanes; and 9 to 1 in short-range missiles.

In response to this, the Soviet Union claims that the Warsaw Pact and NATO have equal numbers of troops and similar numbers of artillery; that the Warsaw Pact has more tanks than NATO; and that NATO has more combat-ready corps, fighter-bombers, and combat helicopters. Generally speaking, the conventional forces of the two sides are about the same.

However, it is obvious that once a war breaks out, West Europe needs help from the United States which is on the other side of the Atlantic Ocean while the Soviet Union, which has geographical advantage, can wait calmly for its exhausted enemies. Besides, West European troops are formed by various corps under the command of different countries whereas Soviet troops are one entity controlled by one unified Soviet command. Evading this fact, the Soviet Union only stresses the defensive nature of its military forces, declaring that the Soviet Union will never take military action against West Europe if it is not attacked by NATO and advocating changes in the structure of armed forces to eliminate the possibility of surprise attack. All of these views were unheard of before.

The Soviet admits that the two sides are not balanced in certain categories of weapons and armed forces and agrees to eliminate such imbalance. However, there is a great gap between the viewpoints of the two sides. West European countries hope to take the opportunity of the Soviet reform to reduce the Soviet advantage through talks. The United States hopes to reach an agreement with the Soviet Union to reduce, by one way or another, its defense burden in West Europe and eliminate some budget deficits. The question is how much can the Soviet Union give in.

Major West European countries uphold the stand of allying with the United States to resist the Soviet Union and advocate a series of strategic deterrents such as maintaining the forward defense of NATO, "flexible response," and gradual escalation. They believe that nuclear weapons and the Americans must stay.

On the issue of nuclear weapons, the difference between West European governments and some left-wing opposition parties and peace movements is growing daily. This phenomenon appeals very much to the Soviet Union. So, when the Soviet Union discusses the issue of conventional arsenal with West European governments, it will never give up its stand on nuclear-free zone in

Europe. This will make it difficult for Soviet-West European relations to make substantial improvement. In addition, West Europe cannot deal with the Soviet Union without the United States and the West European policy of the Soviet Union is subordinate to its U.S. policy. Therefore, in spite of its somewhat improved status, West Europe, sandwiched between two superpowers, still has very little room for maneuver.

12302

#### Article Views Changes in Soviet-East European Relations

40050329A Beijing SHIJIE ZHISHI /WORLD AFFAIRS/ in Chinese No 13, 1 Jul 88 pp 16-17

[Article by Ruo Yu 5387 1946: "The Soviet Union and East Europe Head to New Relations"]

[Text] When his private plane left Belgrade, the capital of Yugoslavia, on 18 March 1988, Gorbachev, the charming new Soviet leader, had visited all East European countries in 3 years after his rise to power. He was in Bulgaria soon after he became the general secretary in 1985, visited Hungary and attended the party conferences of democratic Germany and Poland in 1986, and completed the tour of Czechoslovakia and Romania in 1987. In addition to official visits, Gorbachev invited, under the name of holding "big family" meetings, East European leaders to attend the 27th Soviet Party Congress and participate in related celebrating activities and while they were in the Soviet Union, Gorbachev took the opportunity to hold frequent multilateral and bilateral summit meetings with East European countries. What attracts more people's attention is that he has adopted a practice that is completely different from the past in East European relations and brought about a more harmonious atmosphere in Soviet-East European relations.

#### Make an Effort To Respect Allies and Give Them Equal Treatment

The Soviet Union has recently begun to change the arrogant attitude it had in the past toward its allies, made an effort to treat them equally, and emphasized consultation and coordination with them. In 1986 Gorbachev said at a foreign diplomats' meeting: "Don't think we can teach everybody. Nobody has given us such right." Last year in Prague, he made another remark: "The era in which the Soviet Union issued orders to its allies is gone forever... The past practice in which everything must be stamped and approved by the Soviet Union has come to an end." Now the Soviet Union has begun to heed the opinions of its allies and accept some whenever appropriate. Back at the first Warsaw Treaty Political Consultative Conference held after Gorbachev assumed power, the Soviet Union already changed its practice of one-man dictatorship. When drafting the documents of the conference, it agreed to include in the drafts such proposals as developing cooperative relations with West

Germany and exchanging experiences among the nations of the Warsaw Pact. Since then, the Soviet Union has made an effort to consult with its allies before hand and distribute reports afterward when taking a major move in foreign affairs or making an important policy announcements. Last year after meeting with Reagan, Gorbachev on his way home made a detailed account of the results of the meeting to the member nations of the Warsaw Pact. After the United States and the Soviet Union signed the INF treaty, Gorbachev emphasized on many occasions the "contributions" of Soviet allies, saying that without their support, there would have been no treaty. The Soviet Union no longer interferes with East European countries in seeking better relations with the West. Individual Comecon members are beginning to establish bilateral relations with the European Community. East German leaders' visit to West Germany, which had been brewing for 6 years, was also materialized last year. This year Honecker visited France. U.S.-Polish relations have improved markedly. This series of developments would have been hard to imagine 3 years ago.

#### **Abandon the "Soviet Model" and Recognize "Diversity"**

In the past, the Soviet Union always emphasized the "common law" of socialist construction and pushed the Soviet model in disregard of differences in the national conditions of East European countries. Now the Soviet Union thinks that there is no such thing as a "model to be studied by all" and that every socialist country is a "laboratory." Gorbachev even professed that "instead of responding to everything with friendly applause, we prefer that our allies show concerned and critical understanding of our actions and proposals." On the issue of reform, the Soviet Union, instead of forcing other countries to respond accordingly and keep in line with them, realizes that the conditions of different countries are "quite different" and that "national and historical characteristics" need to be considered. Gorbachev also praised Hungary for having "bold innovations" in seeking solutions to economic problems, democratic Germany for taking "the right path of reform," and Yugoslavia for making "helpful exploration" in developing the self-management political system. These new attitudes of the Soviet Union have encouraged East European countries. A Czech leader remarked: "It is natural for each socialist country to take its own path to socialism. In Eastern Europe, nobody wants to follow the same Soviet model."

#### **Begin To Admit Mistakes and Apologize**

During the 40 years or so after the war, there was a period of not very relaxed history between the Soviet Union and East Europe. The Soviet practice of great-nation chauvinism and founding-father party hurt the national feelings of some East European people and resulted in many complicated "unresolved historical cases." To this, Gorbachev has adopted a flexible practice. In some cases, he admitted mistakes voluntarily, in others, he deemed "it necessary to reevaluate." In 1986,

a Soviet magazine, "NOVY MIR," pointed out in an article published on the occasion of the National Day of Algeria: "subjectivism and the theory that humanity will decides everything" play a major part in causing abnormal relations between the Soviet Union and Algeria. The public opinion thinks that this is actually the same as admitting mistakes to Algeria. Last year the Soviet Union and Poland signed a "declaration on ideological, scientific, and cultural cooperation between the Soviet Union and Poland." Both sides agreed to establish a joint historical commission to conduct joint research and solve problems existing in the history of relations between the two countries, two parties, and two nations, such as the 1920 Polish-Soviet war and the Katyn incident, so as to eliminate "blank spots" in history. Both sides stressed that they should "obtain... objective and accurate explanations for all incidents including tragic ones." On the historical issues existing in Soviet-Yugoslav relations, Gorbachev behaved like a "gentleman." Since 1985, the Soviet Union has stopped underestimating Yugoslav role in World War II and affirmed the "important contributions" of Tito and Yugoslav people in the Anti-fascist war. In the new constitution of the Soviet Communist Party which was adopted in 1986, the "revisionist" label of Yugoslavia was removed; in March 1988, Gorbachev visited Yugoslavia and apologized voluntarily by admitting that it was a mistake to expel Yugoslavia from the communist bloc and Cominform of the socialist workers' party in 1948 and declaring that "charges against Yugoslav leaders at the time were groundless." These new words and actions of the Soviet Union have eliminated to a certain extent some historical misunderstandings and pushed Soviet-East European relations one step further toward harmony.

#### **Seek Efficiency and Emphasize Mutual Benefits**

Since the beginning of 1980, traditional economic relations between the Soviet Union and East European countries have grown apart from the reality, and Comecon has turned almost into an inefficient, bureaucratic organ. In view of this, Gorbachev proposed reforms in the economic and cooperative relations of socialist countries and in the Comecon system. At present, the focus of cooperation between the Soviet Union and East European countries has been gradually shifted from exchanging commodities to establishing joint ventures and direct contacts with scientific research units of different countries. The Soviet Union has begun to stress the need to do things in accordance with economic laws and to implement the principle of mutual benefits, thus reducing the number of economic contacts which were established in the past to serve only as a favor to other countries. It is reported that in 1987 the Soviet Union signed approximately 700 contracts of direct contacts with enterprises of Comecon member nations, established over 10 joint ventures and 43 international corporations. Related statistics show that the Soviet Union has reduced the preferential treatment of providing crude oil for some allies and increased accordingly the export ratio of

manufactured goods. Of course, it is by no means an easy task to really establish a new type of economic cooperation relation because East European countries differ in scientific and technological levels, economic systems, the degree of openness, and especially national interests, the reform of old cooperative mechanism just began, and many complicated old and new problems are waiting to be solved.

There is a profound historical background behind the Soviet adjustment of policy on East Europe. Since the formation of socialist countries as a system, relations

between the Soviet Union and other socialist countries have always been unstable and, sometimes, even very difficult. After entering the 1980's, the sudden change of international situation added a new factor to already very complicated Soviet-East European relations. Under such condition, after reviewing past policies, Gorbachev began to readjust East European policies because it is needed for formulating today's international strategy.

12302

**Economists Discuss Selection of Reform Strategy**

40050353a Beijing *LILUN XINXIBAO*  
[THEORETICAL INFORMATION] in Chinese  
20 Jun 88 p 1

[Article by Wu Jinglian 0702 2417 6647, Zhou Xiaochuan 0719 1420 1557, Li Jiange 2621 0494 7041, Guo Shuqing 6753 2885 3237, Liu Jirui 0491 0679 3843, Lou Jiwei 2869 4949 0251: "Guiding Ideology for the Intermediate Stage of Reform"]

[Text] Wu Jinglian, well-known economist, 58, graduated from the Economics Department of Fudan University, Shanghai. From 1954 to 1984, he pursued research in general theories of government finance, business finance, prices, and socialist political economics at the Economics Institute of the Chinese Academy of Sciences (later the Economics Institute of the Academy of Social Sciences, in the position of research trainee, research assistant, assistant research fellow, and research fellow). From 1983 to 1984, he was visiting research professor at the Social Policy Institute, the Economics Department, Yale University, in the United States. From 1984 on, he has been permanent member and senior research fellow of the Economics Research Center at the State Council (later the Development Research Center of the State Council) and concurrently professor at the Postgraduate Institute of the Chinese Academy of Social Sciences.

**I. China's Developmental Tasks Demand Accelerated Reform**

- A. A fundamental requirement for the smooth transition from "dual economy" to modern economy is a marked improvement in economic efficiency, to provide society with an adequate surplus of products to equip manpower which will become surplus and leave agriculture. In this matter, a most speedy reform toward market orientation will be crucial in our efforts at modernization.
- B. By starting reform first in the rural areas and allowing reform in the urban areas to relatively lag behind, the problem of obtaining beneficial results has been basically left unresolved. If the reform in the urban areas is not quickly pushed forward, and the leading role of industry is not brought into play, it will be impossible to achieve a state of mutual stimulation between industry and agriculture, and between city and countryside.
- C. To adequately exploit relative advantages in the opening up toward the outside world and enjoy the profits that will later ensue, it is necessary to couple the machinery of economic operations on to the external world. If the domestic economic system is not shunted to another track, it will not be possible to achieve a completely new situation in our opening up to the outside world.
- D. The problem of how to achieve the fastest results in the reform at the lowest price is gaining increasingly prominent attention. Economic developments in the

world do not allow us to repeat the confusion of the initial stage of our commodity economy, and to engage in protracted experimentations without clear planning. Formulation and selection of our reform strategy and method must base on the general law and common experiences in the development of modern commodity economy, rendering it suitable to China's national conditions.

**II. Choosing a Reform Strategy**

- A. The long duration of developments in the commodity-currency relationship and the phased nature of the reform determine the need for the reform to seize the right time for several decisive battles.
- B. The reform cannot for a long time rely on methods of reducing taxes, giving up profits, and stimulating consumption as impetus. In addition to smashing the original system, a machinery for market restraints and market stimulation must be set up.
- C. Priority should always be given to revitalize the large and medium enterprises. It is important to separate the government's control and ownership rights from the management rights and to establish market conditions with competition on an equal basis.
- D. Establishment of a unified market throughout the country, and rectification of the method of administrative division of authority.
- E. At the same time as prices are freed, rules and proper order for market planning must be set up.
- F. Reform must be carried out under the leadership of the party, with theoretical guidance and in planned overall coordination.

**III. Conditions Favorable to Reform**

- A. As a result of many economic and political frictions, the traditional system has been discredited, the resolve to reform has been growing stronger throughout the party, while ideological obstacles have decreased.
- B. Many new organizational elements have entered the economic life, and the traditional system is no more in the way like an obstructive steel plate.
- C. The international atmosphere is very favorable, and many external conditions can be made use of.
- D. Economic development still maintains a certain momentum.
- E. The reform of the political system offers timely support.

#### IV. Conditions Unfavorable to Reform

- A. In socialist countries which carry out economic reform, the problem arises, without hardly any exception, that demand steeply increases to an extent which greatly exceeds any increase in efficiency. The result is financial deficits and doubling and redoubling of commodity prices, causing great difficulties for the continuation of the reform. If nothing is done about it, it will be impossible to launch any larger reform measures or difficult to achieve anticipated results.
- B. The local contractual procurements intensify the original trend toward administrative division of authority. This will not only solidify the original irrational production structure, but result in indiscriminate constructions, duplicative deployments, and aggravate the blocking up and splitting of markets, while administrative protection will be afforded only to enterprises in one's own jurisdiction, as it will also obstruct the optimal distribution of resources throughout the country. Because local financial conditions differ, each place will do as it pleases in its policies toward enterprises, which will add new inequalities to those that existed before. The contractual procurements at all levels will intensify the situation of not separating government and enterprise responsibilities, as it will aggravate the difficulty of having the government delegate some of its functions.
- C. Due to the coexistence of the two systems over a long period of time, many loopholes have appeared in the current economic system. Those who are taking advantage of loopholes in the dual-track system or who benefit from special favorable policies frequently tend to oppose further reforms which would create an environment of competition on an equal basis and would establish unified market rules. As the intensified reform threatens the soil on which these people reap their profits, they will adopt the strategy of "using reform as camouflage in their opposition to reform," and will disturb the true reform toward market orientation. Should their statements mislead those parts of the population who originally most firmly supported the reform, namely the workers, peasants, intellectuals, and government functionaries, and have them doubt or lose confidence in the reform, we would stand isolated and unsupported in this great social transformation.
- D. An important weakness in China's economic reform is the inadequate theoretical preparedness. Because the long-standing trend in China of believing only in personal experiences and belittling theoretical guidance has not yet been eliminated; bad customs such as relying in one's work on "intuition" rather than on facts, and allowing political "judgement" take the place of seeking truth from facts, still have considerable impact.

#### V. Some Questions Deserving Attention During the Reform

- A. We must not strive for excessive economic growth, and must not widen the gap between overall demand and overall supply.

Even though the economy now still maintains its growth momentum, this indicates, precisely as some economists indicated at the start of the reform, that there is a worsening of the imbalance in the national economy and of the strain in the supply-demand relation, which will cause increasing difficulties in making substantial progress in the reform. It is therefore necessary not only to restrict demand during the first year of the intermediate stage of the reform plan, to stabilize the economy, and to appropriately slow down economic growth, but to seize on the task of controlling the overall social demand throughout the entire plan period from beginning to end as a primary important affair to ensure victory in the middle stage of the reform.

- B. We must resolutely attack weak points in the national economy, such as agriculture, energy sources, raw materials, communications, post and telecommunications, and resolve the bottlenecks in the national economy.

Agriculture is the foundation of China's economy. As long as agriculture is developing well, everything else can be easily taken care of. First, we have to resolve as quickly as possible the problem of the irrationally low prices for agricultural products, and to adjust the price ratio between industrial and agricultural products. We must institute a system of transfer of land against remuneration, achieve an economy of land management on a large scale, encourage peasants to increase investments in agriculture, strengthen capital construction on farmland, and gradually bring about intensive farming. Second, township enterprises must have our energetic support as well as our active guidance. Under the guidance of a comprehensive and rational policy, not only will town and township enterprises attract peasant capital, but agriculture itself will become an area that will attract investments.

The energy resources, raw materials, communications, post and telecommunication sectors require large amounts of capital and have long construction periods. The present shortfall in investments will result in serious shortages of petroleum, railway and highway transport capacity, and in postal and telecommunication facilities in the 1990's. Coal production will be able to maintain production increases, but will be restricted by transport shortages, and supply difficulties will increase at places other than the places of production. If restrictions in these sectors will become extremely serious, the gap between supply and demand will grow excessively wide, and the market, which had been vigorously established as a complement to reform, will not be able in a short time to balance out prices between supplies and demand.

On the contrary, it will give a severe jolt to the market. We must use allocation of funds by the treasury and policy-directed financial measures in efforts to increase investments in these sectors which have little supply elasticity.

C. At no time must we relax support for science and education.

International experiences and China's experiences have clearly demonstrated that the development of manpower resources is of no less importance for the stable development of the national economy than investments in fixed assets. We must promote compulsory education for the entire population on a larger scale. Investments by developing countries in basic education (comprising preschool, middle school, and primary school education) and in basic scientific research is the indispensable foundation for long-term development. We must presently adopt the methods currently in common use internationally and have the intellectuals raise efficiency as well as improve the livelihood of the people. We must soberly realize that whatever immediate successes we now achieve in our reform, if we delay the training of one generation or several generations, thereby weakening the scientific research basis for future technological progress and our technological reserve, then whatever short-term successes we may be able to gain will lose their initial significance.

D. While continuing our elimination of egalitarianism, we must under no circumstances end up in a state of unfair distributions, in violation of the principle of demanding efficiency, a principle of the commodity economy.

The policy of allowing one part of the population attain prosperity in advance of others, i.e., allowing diligent workers and capable businessmen larger incomes, is completely correct. However, due to reasons of organization or policy, opportunities in income distribution have, since not too long ago, not been equal between different trades, different places, different units, and between different individuals, or there has been an increasingly serious incidence of cases of different remuneration being paid for the same type of work. This serious inequality in benefits and obligations has evoked strong dissatisfaction among the masses and has grown into an important factor that adversely affects social stability and obstructs further reform measures. Hereafter, in handling problems concerning first distributions (such as prices, indirect taxation) and problems concerning redistribution (such as welfare benefits, income tax) we must give attention to provide equal opportunity and fairness in distribution.

E. Instituting a commodity economy presupposes a pure and combat-ready party organization and an honest and just government, to protect economic and social order, regularly and experimentally.

The progression from the traditional system to the new system, especially during the time of changing from one track to another track, and the simultaneous dual-track economic system have created many loopholes and many monetary temptations, and these present a rigorous test for the party organizations and government departments at all levels. During the entire course of the reform, we must maintain the purity of the party and honesty in government. For this purpose we should establish institutions and set up a law enforcement organ similar to the honest government bureau in Hong Kong. At the same time, we must improve the treatment of public and educational personnel, so as to promote honesty through the payment of adequate salaries.

F. Strengthen the development of the legal system; guarantee and promote the reform.

Establish and perfect the legal system, strengthen the judicial contingent, raise the quality of the judicial contingent. The most important problem is no more that there are no laws to follow, but rather that there are laws which are not being followed. Strengthen the concept of rule by law among cadres and the masses, build up a social custom of observing discipline and obeying the law, this must permeate the entire course of the reform.

9808

**Hong Xiaoyuan Report on Current, Future Reform**  
40050353b Beijing *LILUN XINXIBAO*  
[THEORETICAL INFORMATION] in Chinese  
20 Jun 88 p 1

[Article by Xu Qing 1776 7230: "Hong Xiaoyuan Discusses Some Characteristic Features of the Time of the Dual-Track Economic System"]

[Text] China's reform of its economic system is now at the important juncture of shifting to a dual-track system. This has three characteristics: gaps in the system, inversions in the system, and reverse movements of the system. If we want the reform to succeed, we have to gain overall knowledge of the objectives of the reform, giving equal consideration in the reform to both necessity and feasibility. There has to be a sense of urgency and the expenditure of arduous effort.

Recently a young economist, Comrade Hong Xiaoyuan [3163 1420 3293], of the State Reform Commission, was invited by Beijing University to give a report, particularly on the present state and future prospects of the reform. He described the reform as a historical event, and talked of his own views on the progress of the reform. In his opinion, China's reform has now reached the stage of a simultaneous dual-track system. At the start of the reform, the old system declined very quickly, and elements of the new system were introduced. But due to the fact that the elements of the new economic system were not yet blended together to exercise their functions as a whole, it finally ended up in a mixed

system, namely in the simultaneous dual-track system. Sliding into this situation was quickly done, but getting out of it is an extremely arduous affair. This is a difficulty commonly faced by all socialist countries which have undertaken reform. The dual-track system now practiced in China has the following three characteristic features:

1. A gap in the system. During the simultaneous operation of the dual-track system, the old system is in a downward spin, while the new system has not yet been fully set up and is not yet able to fully replace all the functions of the old system. As this transformation from one system to the other is going on, a gap has opened up between them. A typical example which shows up the gap in the system is the economic stagnation in Shanghai.
2. Inversion of the system. At a time when the old system has been weakened while the new system is not yet in position, the market mechanism reverts to government departments, to the administrative domain, and the educational system to play its role there. But administrative interventions by the government have broken up the market, that is the "inversion" of the system. The three acute problems of today (the problem of party workstyle, the problem of commodity prices, the problem in education) originate from this inversion. Use of the powers of office for personal gain is the one among the problems in party workstyle that causes everyone the worst headache, and that is specifically the result of a "commodity awareness" in handling official matters. In the pricing of commodities, the government should originally control the total amounts of commodity prices, while the market would adjust the actual structure of commodity prices. But as it is now, the government controls unit prices too rigidly, and the total amounts of commodity prices are regulated by the market. There is no way to regulate the actual price structure, and the total amounts of all commodity prices are also controlled by the market. As a result, prices go up. In education, because there are external economic elements in education, external economic things should be handled by the government. Relying only on market regulation, on individual investments, and on individual selections will never bring results to the extent needed by society.
3. Reverse movement of the system. After our economy had shifted to the dual-track system, it was originally thought that the new system would quickly replace the old system, so as to achieve the objective of the reform. But up to now it has been impossible to achieve that goal. The most basic problem in China's system is that public ownership has no specific owner, and that the government exercises the rights on behalf of specific owners, so that in the end there is no separation between government and enterprises, and barriers have arisen between different departments and different levels. Now a solution of the problem is

being initiated by separating ownership right from management right. What is the result of it? Shenzhen was the earliest place in China to set up a bureau for the administration of government property, with the aim of combining the three rights of the enterprises (right to profits, right of management, right of investment). But after its establishment, only the right to profit and right of management were with the organizational department of the municipal party committee, the right of investment was with the management departments of the various trades. The three rights are still split apart, and the new system reversed itself and went back to the old system. The reverse movement of the system makes it very hard for us to get out of the stage of "shunting from one track to the other" in this dual-track system.

Two important elements prevent success in the reform: One element is the inadequate understanding of the reform. Because understanding and defining the objectives of the reform in China had been a protracted process, many critical moments have been missed, due to insufficient remolding of understanding concerning the reform. The second element is the question of necessity and feasibility of the reform. These two factors have not appeared simultaneously. At the time of great optimism as to the economic situation, feasibility of the reform appeared large, but people had doubts as to the necessity of reform. When the situation worsened, the necessity for reform became prominent, but feasibility became extremely small, and the space for choices also became extremely limited.

In the final analysis, the most important factor is the question of time. Due to the fact that the present period shows the above-described three characteristic features and in addition is also under the adverse influence of the mentioned two elements, the crucial factor that will determine success or failure of the reform is whether there is a strong sense of crisis in the element of time.

9808

#### Shanghai CASS Holds Symposium on Reform, New Concepts

40050353c Beijing LILUN XINXIBAO  
[THEORETICAL INFORMATION] in Chinese  
20 Jun 88 p 2

[Article: "The Three-Power Concept in the Reform of the Political System, and the Three Links in the Reform of the Cadre Personnel System"]

[Text] On 2 May, the Shanghai Branch of the Chinese Academy of Social Sciences [CASS] held a symposium on the subject of "Reform of the Political System and Party Building." Over 60 persons engaged in theoretical research at institutions of higher learning and scientific research units attended the symposium.

Participants at the symposium were of the opinion that crucial to any reform of the political system is the rectification of the power structure, and straightening out the relationship between the powers of the party, the powers of the government, and the rights of the people. The necessity to establish the people's rights is the foundation of the power structure of the state, the powers of the government are the substance of the power structure, and the powers of the party are the core concept of the power structure, and all three together must be the expression of the will of the people in their right. To effect the separation of government and party requires first of all to distinguish between the concepts of strengthening the leadership of the party and of establishing a democratic political system and system of scientific management. Reflecting calmly on the concept that the party must lead in all affairs, and the reason why this concept has time and again been strengthened, the most important factor is that it is generally acknowledged that the party's principle of democratic centralism is the absolutely effective magic weapon to restrain the power and will of individuals. Historical experience indicates that this principle has not been able to prevent arbitrary decisions by an individual leader, who may even in critical moments turn it into a weapon to discriminate against those who hold different views and to persecute dissidents. Could we then not draw a lesson from the successful ways of Western democratic politics—a balance of powers, and bestow on it a new socialist significance.

As to the reform of the personnel system for cadres, all participants at the symposium were of the opinion that there has been no change in the irrational state of competition in China's personnel system for cadres. Specific manifestations are: 1) The closed procedure and subjective willfulness of the selection machinery. A small group of leaders in charge make internal decisions, which lack true information feedback and external supervision. 2) The passive position of the candidate for selection and his unquestioning subordination. This is bound to produce candidates with slick and sly hypocritical characters, which is one of the organizational reasons for the

unhealthy tendencies among the cadre contingent. 3. Vulgarization of relations in the competitive atmosphere. Particularly the children of cadres and leaders in charge of a closely related type of work have obviously a better chance than other candidates, which leads to the structural irregularity of jobs being "family-owned." To establish a beneficial competitive machinery, it is necessary to concentrate energy on the three links in cadre careers, namely on "entry," "control," and "exit." At the "entry" we should implement the principle of openness and equality in the selection process, the principle of checking capability and development, and should employ democratic and responsible principles. "Control" should be exercised with regard to responsibility and authority of the cadre at his post, space-wise (as through the system of personal responsibility for his post) and time-wise (as through the system of personal responsibility for an objective) and on the basis of this two-dimensional check of his achievements, it should be decided whether to promote or demote him. "Exit" is the fundamental guarantee of a benign circle, which should be standardized by a perfect employment system, system of terminating services, and impeachment system. China's present cadres system is now a mixture, as the traditional system of administering cadres is being transformed into a modern system of social control. Though we see in an overview that there is an ever-changing large array of systems of administering government functionaries in the world, they had in the main undergone a developmental process from the feudal enfeoffments to the capitalist job replacements by the spoils system up to the modern government functionary system. China's cadre system lacks mobility, and somehow reflects an awareness of the feudal system of enfeoffments, while the methods of the past of going by class origin and drawing a clear dividing line in the two-line struggle, and today's method of going by age and educational record seem to have some features of the job replacements by the spoils system. It is therefore now strongly emphasized that in establishing a system of administering government functionaries we must not merely look at Western examples to emulate but consider it an effective way to radically transform China's backward condition of administering its cadres.

9808

## NATIONAL AFFAIRS, POLICY

### Symposium Discusses Regional Responsibility Contracts

40060408 Chongqing GAIGE [REFORM] in Chinese  
No 3, 10 May 88 p 5

[Selection of statements delivered at a symposium convened 29 March, 1 April 1988 by GAIGE: "Do Regional Responsibility Contracts Point the Way in Which Reform Should Head, Or Are They Just an Expedient?"—First paragraph supplied by source.]

[Text] *Editor's Note: Application of the contract responsibility system to the finance, foreign-trade, credit and other administrative systems is a new approach that has appeared in reform. How should we evaluate the approach? What impact will it have on reform? Is it consistent with reform? Or is it just a temporary expedient? How should it be improved? These questions are the subject of controversy in the theory and practice of our program to implement regional contract responsibility systems, are hot issues about which everyone is concerned and were the focus of a symposium convened by this journal and attended by comrades from economic circles and relevant departments 29 March and 1 April 1988. We print here, in edited form, some of the statements made at the symposium in the hopes of stimulating further examination and discussion of the issues.*

#### I. Evaluations of the Regional Contract Responsibility System

##### A. The Regional Contract Responsibility System Is Consistent With Conditions in China and With the Direction of Reform

Yang Peixin [2799 1014 2450]: I recently conducted surveys in Jilin, Jiangxi, Inner Mongolia and other regions and found that authority must be delegated to the localities and that the highly centralized model should be abandoned. The West German government, for example, handles only matters relating to currency, national laws (such as laws restricting monopolies), social welfare and the like. I believe that we must ultimately go this route. The problem today is not a lack of central power, but too much of it. Gross industrial output value is produced by provinces, municipalities and autonomous regions, yet these entities have very little power. Only by restoring regional governments' authority to organize local economic activity and by giving them more autonomy, especially in the area of finance, can we begin to approach the issue of how to help peasants and enterprises develop the economy. Regions will never be able to get their infrastructural projects off the ground if we do not give these entities a certain amount of financial authority. For example, foreign businessmen express willingness to invest in Dongguan, Guangdong as soon as they look at the place, because that county has an excellent investment climate and computer-controlled direct-dial telephone connections with France, the United States and Hong Kong. If

nobody builds roads and communications facilities, will anyone be willing to come? The local financial contract responsibility system, the foreign-trade contract responsibility system, the bank-credit contract responsibility system and the like are new approaches that have emerged since the 13th National Congress of the CPC, represent goods ways to decentralize power and are consistent with the direction of reform. We must not waver on this point and not veer from this direction. Where there are problems and difficulties, we must find ways to resolve them.

Wang Zhuo [3769 3820]: Why must we implement the regional contract responsibility system? I believe this is an important policy that was drawn up in accordance with actual conditions in China. And what are those conditions? First, we are at the preliminary stage of socialism, our economic and market systems are just starting to develop, so we cannot expect to do things the way they are done in modern Western market economies. Second, our elementary market economies and systems have suffered imbalances in their development. For example, Guangdong, which has developed very fast in recent years, had to adopt an administrative system that is responsive to the international market economy so as to participate in international trade. So that province has a highly developed market economy, and coastal areas represent another level, and central and western regions, still others. So long as our general objectives are retained, we should permit variety in our economic administrative system. Third, reform capabilities differ. The richer and more populous regions are, the more they can sustain reform. Reform rates also differ, so we should carry out reform at different speeds in different regions and not insist that the entire nation advances together.

##### B. The Regional Contract Responsibility System Represents Progress but Also Has Some Defects

He Zheyi [0149 2182 0001]: What form should reform of the financial administrative system take? I believe that that reform should basically entail a division of authority, responsibility and interests between the central government and the regions, for failure to accomplish such a division will make it difficult to obtain proper results and will dampen regional enthusiasm for developing sources of revenue. That is what happened with the foreign-trade responsibility system. The original intent of the system was to dump the central government's burden off on regions and to eliminate subsidies, but when the burden was transferred we were unable to stabilize relations between the central government and the regions, because the financial division between these two entities was never fully established, so the burden landed back in the central government's lap. Thus we must cut this Gordian knot and effect the regional financial contract responsibility system.

However, I believe that this approach is just a temporary, unavoidable expedient and cannot serve as a long-term solution. What is the problem with the current

financial contract responsibility system? In an article published a while ago, I asked if a country such as ours should separate power in two directions or one. What we are doing now is separating power in two directions, between the state and enterprises and among administrative levels, and this has it made it impossible to separate government from enterprise and for enterprises truly to benefit from the program. Thus I advocated two different directions for our effort to separate power. As one level of state power, administrations should be responsible for regulating economic life. This function is called "economic administration" and is different from the role of ownership by all the people. Second, ownership and managerial authority must be separated. There can only be one representative of ownership by all the people, and that is the central government. Economic authority can be shared with enterprises and corporations but not with governments, which approach would only "make the two ends fat and starve the middle." Provinces, municipalities, prefectures and counties cannot serve as representatives of state ownership. In this fashion, the nature of finance changes and becomes public finance. The regional contract responsibility system fails to confront this issue and thus can only serve as a temporary expedient.

**Wu Jinglian [0702 2417 8834]:** The financial contract responsibility system represents an advance in reform on the "practice of dining from different hearths," entails separation of budgetary plans among central and local governments, and replaces "central collection and central allocation" with "separate collections and separate expenditure, with responsibility contracted out to each administrative level." This, of course, is a great step forward, facilitates expansion of autonomy at every level of government and gives each level incentive to increase revenues and reduce expenditures. Nevertheless, as many economists noted at the time the system was inaugurated, the system suffers from a major defect. Because budgets at all levels were to be funded from enterprises under the jurisdiction of administrative agencies, ties between enterprises and governments at all levels would be drawn even tighter, resulting in many abuses. This prediction subsequently turned out to be accurate. Since 1980 governments at all levels have been eager to set up vendor stands and undertake new projects; strived to transform themselves into new, independent systems; sought to provide administrative protection for the enterprises they manage; blocked outflows of raw materials and other producer goods and materials that are in short supply or inflows of high quality, low priced commodities; exacerbated market fragmentation; and incited "tobacco wars," "wool wars," and other acts inimical to optimal national deployment of scarce raw materials. Because of these developments, more and more people are calling for a quick change in this system, which in comparative economics is called "administrative distribution of power," and for a transformation of China's financial system into a tiered system, commonly known as "tax sharing," that is not based on

jurisdictional affiliations between administrative agencies and enterprises, that distributes revenues according to tax types and determines allocations in accordance with rationally set spheres of authority for each level of government. Such a system would facilitate creation of a national, unified market, which is required for the new economic system, and make it easier to establish the basic framework for the new economic system.

Effective application of market economy is premised on the creation of a unified market. Any measure that impedes creation of a competitive market system is inimical to the overall interests of reform. When one weighs the pros and cons, it is apparent that even measures yielding partial results should not be adopted.

In sum, although the financial contract responsibility system is a logical extension of the system that has widely been instituted in enterprises and will produce a few short-term benefits, in the long run the system will prove inimical to the goals of reform. Thus I believe this approach is not the best way to advance reform. And if we expand the notion of decentralizing authority and contract out the authority to control money supply to each administrative level, that localities very likely will find that "whoever inflates, benefits" and that it is in their interests to expand the money supply, which will lead to a sort of "race to inflate" and create an even greater threat to the macroscopic economy.

**Lin Ling [2651 0407]:** Since the 3d Plenum of the 11th CPC Central Committee, central authorities have instituted a financial system that entails "dining from different hearths" in most provinces, municipalities and autonomous regions, and even after many readjustments, the system has remained basically unaltered. The system did pull regional snouts out of the state's big pot, mobilized local initiative for increasing revenues and thus has many advantages. As a result of these successes, the central government carried out financial contract responsibility systems in its relations with provinces and some central departments, and some provinces did the same with respect to cities, counties and a number of regional departments and bureaus, which efforts were also pretty effective. And as a result of the experience obtained over the previous 9 years in these areas, the central government decided last year that financial contract responsibility systems could be implemented at every administrative level down to the county, which decision many provinces are carrying out on a wide scale this year.

This decision resulted from the effort to resolve contradictions between central and regional interests under the current economic system. To ensure a stable flow of revenues for the entire nation and to reduce central budgetary expenditures, the central government pressed local governments to accept financial contract responsibility systems. And regional governments demanded assurances of steady growth in their revenues so that they could avoid the difficulties caused by frequent change in

the state's "dining from different hearths" system, enhance their financial strength and expand their economic and social projects. Thus negotiations between the central and regional governments and among all levels of local governments produced a quick compromise agreement.

I believe that applying the financial contract responsibility system to the provincial level, although representing an improvement on the old system of central revenues and disbursements, is only be an expedient that we have no choice but to adopt as the new and old economic systems continue to exist and that this expedient is not the model we ultimately must employ for the new system. The call raised by many economists as early as 1982-1983 for reform of this approach and for efforts to shift from the "dining from different hearths" system to tax sharing has yet to be heeded. Instead, the approach has been broadened, from the province all the way down to the county and now also includes administrative departments. If continued, this approach will impede economic growth, restructuring of the productive structure, and reform of the economic administrative system and will produce alarming results.

### C. The Regional Contract Responsibility System Is Neither "Totally Useless" Nor "Immediately Effective"

**Zuo Chuntai [1563 2504 0669]:** The financial contract responsibility system has been employed several times in the 30-odd years since the founding of the People's Republic but was used only on a temporary basis and did not last long. Thus we have not conscientiously summarized and evaluated our experience with nor have we drawn up any standardized regulations governing the system.

There are two poles of opinion regarding the financial contract responsibility system—and opposition, which we can summarize as "totally useless" and "immediately effective." How should we approach and evaluate this system of budgetary management?

Is it "totally useless," as one extreme claims? I am afraid that view will not do. The system has been employed in different ways in the past, including what things were contracted out, how authority was contracted out, and how the system worked. And the fact that the system has been employed again and again over the past 30-some years suggests that has been quite attractive in terms of its ability to resolve certain problems and to achieve certain ends, so how can we condemn it completely? And even the aspect of the system that is most heavily criticized, namely, that it promotes regional disintegration and impedes efforts to create a unified market, probably cannot be fairly and entirely be attributed to the system, for regional fragmentation has long been a problem and did not start with the responsibility system. And regional governments establish enterprises and compete for investment and construction projects not only to increase their budgetary revenues but, even more

importantly, to expand employment, improve local residents' standards of living, promote economic prosperity, and increase the number of markets and supply of goods and materials for agricultural and urban development. Naturally, we must admit that the financial contract responsibility system does exacerbate regionalism. But eliminating regional fragmentation and establishing a unified market require multifaceted, comprehensive approaches and cannot be achieved merely by reforming the financial administrative system.

Well, then, is the system "immediately effective"? I am afraid that this view will not do, either. Such a claim betrays a simplistic understanding of complex economic work. Not to mention the various contract responsibility systems we are experimenting with in urban reform, but even the rural production responsibility system, which has proved to be a correct system that has played a key role, cannot be said to have been "immediately effective." Would agriculture have been so successful today if, at the time the production responsibility system was implemented, the prices of grain and other major agricultural and sideline products had not been greatly increased, grain had not been imported so as to permit reduction in centralized grain procurement, agricultural and other rural tax burdens had not been reduced, peasants had not been permitted to work in industry or engage in trade, or other such policies had not been adopted? And not all of the aspects of the regional financial contract responsibility system are popular. First there is the problem of the base figures of contracts, an issue that is often overlooked by theoretical circles but is key in contract responsibility systems. At the news conference of the First Session of the 7th NPC, Guangdong Governor Ye Xuanping [0673 6693 1627] said he believed that the financial contract responsibility system is one of the major contributors to Guangdong's rapid growth over the past several years and is one of the ways in which the central government has provided Guangdong with preferential treatment. Clearly, Guangdong's economy and fiscal revenues have grown many fold in the past several years, yet the province's quota for revenue remittance to the central government, 1 billion yuan, has not been changed. Naturally, Guangdong likes this deal. The leader of the Shanghai delegation, Zhu ???ji [2612 ??? 1015; character indistinct], indicated that the central government has taken good care of Shanghai and allowed that municipality to implement the financial contract responsibility system so as to assist the municipality's economic development and to effect the central government's policy on developing coastal economies. Would Shanghai have liked its contract if its figures were set at the old quota for remittances to the central government? It would seem, then, that appropriate base figures are essential if responsibility contracts are to yield immediate results. Second, there is also the issue of future development trends. Take Shanghai for example. If the prices of fuel and raw materials continue to rise and Shanghai cannot hike the prices of its products or otherwise absorb its increase in costs, appropriate base figures alone will not do the trick. Third,

there are other problems associated with reform, including how macroscopic control is effected. As I recall, the earliest call for incremental increases in contract base figures during the early 1980s was for the Luoyang Tractor Plant, but economic readjustment and rural contract responsibility systems greatly reduced tractor sales, so the plant not only did not experience steady increases in profits but actually suffered losses, so that its contract had to be annulled. Obviously, this contract was not "immediately effective."

What objective was behind the decision to switch our immediate goal from instituting the tax-sharing system to the contract responsibility system? Was it related to the strategy to develop coastal areas and thus designed to relax policy so as to enable coastal areas to get rich first? If that is the goal, then, of course, the central government must grant financial concessions to the regions. Naturally, the concessions must not be excessive, nor should they be as generous as those granted to Guangdong, for if they are the central government cannot assure funding for key development projects or even "dining." This is a real contradiction at present.

Ideology also has a big role in reform, and we advocate a change in ideas. But there is one idea that not only cannot be changed but should be strengthened, and that is the view of the whole picture. If leading cadres at all levels cannot establish such a view, then you will have your policy and I, my countermeasures; and you will not consent to transfer authority or make concessions, whereas I would "bury the treasure in enterprises." Such a state of affairs would turn responsibility contracts and other reforms into utter rot.

Even though the contract responsibility system is not "totally useless," it does have its imperfections, for example, the political horse trading that goes on, to various degrees, between the various levels of government on the way base figures are calculated or readjusted and the way contract amounts or ratios are set, and the lack of regularized formulas and procedures in these processes. In addition, contract periods should be set by contract or by law. For example, how much longer will the special policy that has been accorded Guangdong for nearly 10 years continue? Should the term length of that policy be set the same as for other coastal cities? And if we determine that the special contract shall last only 10 years and revise the contract amounts and ratios of Guangdong and other similar provinces, then we should use the profits remitted by Guangdong to the central government after the termination of the special contract to provide preferential treatment to other coastal provinces and municipalities. This approach would not affect the overall picture very much and would be easy to implement. Even if this approach is probably hard to effect at present, I believe that we should cultivate the notions that there are time limits on and repayment responsibilities for preferential policies accorded to regions that are allowed to get rich first. That is to say, such regions should be required at some point to undertake greater responsibilities to the state and to poor regions.

#### D. What Approach Should We Take in Evaluating the Regional Contract Responsibility System?

**Hong Xiaoyuan** [3163 1420 3293]: Discussion of the regional contract responsibility system generally has not been focused on how the system actually operates but rather on the changes effected as we move from one system to the other. I believe that the administrative system the regional contract responsibility system will engender will differ both from the old system we want to change and from the new one we hope to create. If we examine the regional contract responsibility system from the perspective of the old or the new systems, any praise or criticism we might direct at the regional contract responsibility system would inevitably be biased. So I believe that we must look at the regional contract responsibility system from a vantage point that stands above the system, or rather from two points. We must ask, first, what opportunities the regional contract responsibility system provides us and, second, what opportunities it causes us to lose. I will address these issues from the following directions.

1. Should there be regional differences in reform? Should we attempt to make breakthroughs in one region first? Should reform be the first step we take, and should it be the step that sets off a more comprehensive process? Or should it be associated with other steps and be carried along by an integrated process? Should reform be focused on key elements? Or should it focus on secondary elements? At the present stage, it is far more likely that one government will make mistakes than it is for 20-odd governments to make the same mistake simultaneously. So the first decision we must make is whether reform should attempt to make breakthroughs in one region first?
2. If we decide that reform should focus on one region first, we have to ask whether or not relations between the central government and the regions should be stabilized. I believe that reform will never make breakthroughs if the relations are not stabilized. Guangdong was successful because the relations were stabilized, and there are no examples of success where the relations were not stabilized.
3. Then, is the regional contract responsibility system the way to stabilize the relations? If we compare a variety of possible approaches, is this method the best, or is it a bad choice that we think is unavoidable? In Guangdong we found that this system did a better job of stabilizing the authority, responsibility and interest relations between the central government and the region.
4. If we decide on this system, what price will we have to pay in using it? (1) If we say that the situation it will create is inimical to readjustment of the productive structure, we must also note that that structure ultimately boils down to a question of interests and benefits, which affect the structure. (2) If the system engenders a web of interests, will we be able to smash

that web when we have to? (3) The system has its own inherent logic. Will the system serve as a good transitional bridge to the new economic system? What measures should we adopt now to make this a good bridge and to facilitate a smooth transition?

I believe the regional contract responsibility system must be examined through this approach.

## II. Problems Plaguing the Regional Contract Responsibility System

### A. The Harmful Effects the System Begets

**Lin Ling:** Financial contract responsibility inevitably gives regions incentive for increasing revenue, but increasing revenue is by no means easy to do. Besides improving enterprise economic results, strengthening tax collection and expanding commodity exchange among regions, the most important thing we must accomplish is to establish new enterprises. Experience over the past several years shows that the earnings obtained through the responsibility system, though sometimes used to pay back debts on infrastructural projects and social welfare, are largely applied to the establishment of new enterprises, especially the "short-level-fast" enterprises that require little investment yet yield quick results, because this is the best way to ensure that fiscal revenues can continue to grow at a stable rate. But this approach begets a number of problems that affect the economic results of the entire society, impede readjustment of the productive structure and prevent us from obtaining our goals in reform.

1. There has been much redundancy in development projects and in production. There are many instances in which provinces have several television, refrigerator and electric fan factories, all of which fail to achieve economies of scale. And all regions undertake projects to process their own raw materials using backward technology, incurring overly high costs, using too many materials and causing serious waste.
2. Regional efforts to close off local markets to outside goods hinders our effort to create a unified national market. Of course, it is not possible to close markets completely off once the commodity economy reaches a certain stage of development, but it has become more difficult to open markets, and the functions of key cities, especially these cities' radiative distribution effect, has been impeded.
3. The blind development of processing industry has made supply shortages of energy sources and raw materials worse. As the financial contract responsibility system is carried out at every administrative level, local governments receive small amounts of a wide range of extrabudgetary funds, which they use only to run small-scale processing and rarely invest in energy

and raw material production. This expands overbloated processing industry even more and creates even greater shortages of energy sources and raw materials, which are dear to begin with.

4. The financial contract responsibility system causes even greater inequality in the external conditions affecting enterprises. Most enterprises have now been handed over to local governments to administer, and differing local financial conditions under the contract responsibility system begets a variety of policies on local enterprises. For example, some contract base figures and retention rates may be strict, others more relaxed. This adds another factor engendering inequality, in addition to enterprise prices and tax liabilities.
5. The contract responsibility system strengthens the tendency of local governments to act on the basis of short-term goals. Even though the financial contract responsibility system between the central government and the various levels of local government has not changed, the base figures and retention rates frequently fluctuate and changed the most last year and this year. Last year the central government borrowed money from the localities, and this year it made the amounts it borrowed the basis for contract base figures. This kind of instability in policy has been a major contributor to the tendency of local governments to focus on short-term goals. This factor has contributed to the serious problem of excessive expansion of purchasing power among institutions and social groups.
6. The contract responsibility system tends to crowd out macroeconomic control. "Once you undertake the contract, I do not care what you do"—this is the attitude of governments at higher levels, is what lower-level governments want, and gives rise to blind construction of production facilities, chaos in the financial and economic systems, siphoning off of enterprise autonomy, exaction of miscellaneous, irregular levies and the like. The seriousness of this situation varies because local governments entertain different ideas about and possess different abilities in administrative control.
7. Selective implementation of local contract responsibility produces goods results for the entities involved, but when broadened the system engenders serious problems. When the system is implemented at selected localities, these areas' markets are successfully opened and flourish as raw materials, commodities, labor, funds and the like flow into them. In addition to the efforts of the localities themselves, another important factor contributing to the success of the local contract responsibility system is the fact that these localities profit at the expense of localities that do not have the system. So if all areas take up contract responsibility, the gains achieved through this factor will vanish.

Taken together, these drawbacks of the regional contract responsibility system run counter to the direction and objectives of China's economic reform.

Reform requires readjustment and rationalization of the productive structure, but contracting local responsibility over to each administrative level rigidifies the existing irrational productive structure and makes it even more irrational. Reform requires elimination of vertical and horizontal barriers and the gradual creation of a national, unified market, but the local contract responsibility system aggravates market fragmentation. Reform requires invigoration of enterprises and gradual laying of the groundwork to enable them to compete on an equal footing, the local contract responsibility system dampens their vigor and makes competitive conditions even more unequal. Reform requires separation of administration and enterprise and transformation of government functions, but the local contract responsibility system exacerbates the overlap and makes transformation of government function more difficult.

**Li Su [2621 5126]:** I believe that the local contract responsibility system hinders separation of administration and enterprise. In a market economy, the government should stand above producers, equidistant from all, and not align itself with any one producer or group. Therefore, we must sever the ties between the state and property rights, for only thus can we thoroughly separate government and enterprise. In countries possessing good market mechanisms, economic regulatory power is always concentrated in the hands of the central government and never shared with regions. In such countries, the government's roles in regulation and in improving investment climate are its only real functions, and the government does not participate in competition. Therefore, reform cannot consist merely of delegating authority down to some administrative level but must focus on invigorating the major economic actors—enterprises.

#### **B. Contracting Responsibility Over Foreign Trade to Regions Enhances the Fusion of Government and Enterprise and Exacerbates Market Fragmentation and Regional Autarky**

**Ji Chongwei [1323 6850 1218]:** What we mean by foreign-trade responsibility contracting is nothing less than a delegation of the central government's monopoly over this area to regions, which actually amounts to the creation of foreign-trade corporations in the provinces, municipalities and autonomous regions. This move increases regional say in and control over foreign trade but in reality is only a mechanical application of the form employed by the original corporations and thus results in higher and higher costs, increasingly bloated administrative agencies and even larger staffs. When regions assume foreign-trade responsibility contracts, they break export quotas down and distribute them to each lower administrative level, sometimes even to county-seat towns, force targets up with administrative measures and exact miscellaneous, irregular levies from lower units. This practice makes government and enterprise more tightly bound, not less.

Regional foreign-trade responsibility contracting also fragments markets and encourages local autarky. In the textile industry, for example, coastal areas are well developed and especially well equipped with all the forces involved in final processing, printing and dyeing, whereas regions in the interior are strong in the production of cotton yarn and cloth and other primary processing. When regional foreign-trade responsibility contracts were implemented, interior regions began to export their yarn and cloth directly abroad. Xu Xiaochun [1776 1321 4784], chief of the Beijing Printing and Dyeing Mill, who organized the Damei Group and set up joint operations with the interior, would never have been able to accomplish what he did if regions had assumed foreign-trade responsibility contracts. Beijing, Shanghai and other places produce exquisite cashmere sweaters and have established their brand names on international markets. But cashmere is produced in Xinjiang and Inner Mongolia, which began directly selling their cashmere to Hong Kong and the UK after assuming foreign-trade responsibility contracts, so Beijing and Shanghai have had to buy the raw material they need from abroad. Thus we are just punishing ourselves with this system. As a result, sophisticated processing has declined in Shanghai, Tianjin and other areas. And although we have expanded our exports of raw materials, on the whole what we have done is reduce, not improve, our economic returns. Have we not been emphasizing the great international circle? Well, I believe this circle is rooted in smooth domestic circulation. If blood cannot flow through the heart, how is it ever going to get through the veins of the hands and feet?

And there is another problem. If we forsake needed centralization and unity, how are we going to effect our policy on readjustment of the productive structure? China's overall strength is much greater than that of the "four little dragons," but how did the latter manage to increase their exports so fast? Primarily because they achieved economies of scale. For example, South Korea has only three automobile manufacturers and two or three producers of color televisions. But China has producers of such goods scattered throughout every one of her provinces and municipalities and thus has dispersed her technological and financial resources, kept her scale of production small and prevented her economic results from improving. This will make it very difficult for us to produce quality, low-cost, competitive goods.

Regional responsibility contracting has divided the nation into 20-30 chunks, each of which has become a system unto itself. Whenever one chunk starts to produce something, every other chunk wants to get into the act, fearing it will be left out. Latex medical gloves, for example, have recently been selling well on the American market, so in a flash 200-plus production lines went up in China. But the United States is installing 10 of its own, which will basically meet local demand, so ours are doomed to collapse. The poorer we are, it seems, the

more we squander investment in such areas. This problem must be nipped at the root. If we keep scattering our resources, we will end up the same as Yugoslavia did.

### C. The Local Financial Contract Responsibility System Undermines the State's Regulatory Control

**Song Xingzhong [1345 2450 0022]:** I believe that, in planning reform of the financial system, we must first decide on our overall objective therefore—do we want centralized or decentralized control over finances? Local responsibility contracting, of course, means decentralized control. Below I should like to discuss the problems that this system may spawn, in the hopes of drawing the attention of relevant departments to the issue.

1. Local financial responsibility contracting will undermine regulatory control. In essence, the local contract responsibility system will parcel the central government to death. Although the purpose of the program is to enhance the center's regulatory control, what actually occurs is a weakening of it. The program will create tremendous difficulties, for example, in our effort to readjust China's productive structure.
2. Local financial responsibility contracting will weaken the state's ability to make economic readjustments among regions. Once financial responsibility is contracted out, the state will not wield enough financial resources to effect interregional readjustments. So to what can the state resort to perform this function? This is not just a financial issue but rather involves the political problems of our relationship with underdeveloped regions and regions inhabited by minority peoples.
3. Local financial responsibility contracting will create a fait accompli and make budgetary expenditures even harder to control. The primary reason why budgetary expenditure cannot be controlled is because local outlays have risen too rapidly. This situation will get even worse when financial authority is contracted out to localities. And once this situation is created, it will be difficult to change back, which is the most serious thing of all. For by that time, it will not be easy to muster the resolve to make the necessary changes, because such changes will surely wreak great damage upon the economy.

### D. Lessons Should Be Drawn From the Experience of Yugoslavia with "Policentrism"

**Jiang Yiwei [5592 0001 5517]:** The regional contract responsibility system is about to be broadened to encompass the entire country. What will be the results of this policy? That is a question we ought carefully to consider. I went to Yugoslavia on a fact-finding visit in 1983. At that time, some people said that Yugoslavia was a mess because she implemented enterprise and worker self-rule. I went to that country with this question in mind and learned through my visit that Yugoslavia's problems are not the result of enterprise self-rule at all. Of course,

Yugoslavia's self-rule program is not defect-free. Enterprise autonomy has been broadened to encompass basic-level labor organizations, becoming workshop autonomy. And the self-rule program has been expanded to include social groups, even for hospitals, which is taking things way too far. But what do these developments have to do with Yugoslavia's economic crisis? The answer is not much. That country's crisis stems primarily from the loss of control by the central, or federal, government to regional autonomy. Yugoslavian economists repeatedly told me that economic reform will not work without political reform. What these economists meant by political reform included two issues—localism and ethnic nationalism, which in essence boils down to the problem of local self-rule. Yugoslavia's problems are manifested primarily in redundant construction and production. Each republic tries to one-up the other; what one does, the others all want to do, too. For example, as soon as one steel mill is planned, five other pop up, so that each republic has one; and there are six synthetic fiber plants, too, all of which get clobbered each time an oil crisis occurs. So people criticize these factories as "political plants." And foreign debt is also undertaken and repaid by each republic itself, such that situations like the following have occurred. One republic exported grain to repay its foreign debt, whereas other republics had to buy the grain back through imports. Such practices undermine the unified market in Yugoslavia. And Yugoslavian economist claim this is the basic cause of the country's economic crisis. Upon my return to China, I mulled these matters over and reached the following conclusion. Authority over the economy should be concentrated at the two ends of the spectrum—macroeconomic regulation should be effected by the central government, and microeconomic development should be undertaken by enterprises. For example, who was to blame when China imported 100-plus color-television production lines? Enterprises? How many enterprises have enough retained earnings to set up new factories? This is the way things are in Yugoslavia, too. Enterprises there do not have the wherewithal to set up new enterprises and have to turn to bank loans. And banks, which are controlled by the republics, issue loans whenever the republics ask them to. So I have always advocated "making enterprises the basic unit" and opposed letting regions or the state serve this function.

**Wu Jinglian:** We really should remember Yugoslavia's experience. This is a multinational country, there is great disparity in the levels of development of its various regions, and thus Yugoslavs have opted to include devolution of administrative power in their reforms. Nevertheless, several decades of experience has shown that this approach undermines market integration, makes it difficult to improve the economies of all regions at the same time, adversely affects the overall results of the national economy, and accentuates disparity in economic development among regions and tension among ethnic groups.

Consequently, more and more Yugoslavian statesmen and economists have come to realize that the mistaken policy of what they call "policentrism" is a major cause

of the economic difficulties and social instability they have suffered in recent years. That is to say, in their "charter economy", which was recently implemented, state administrative agencies continue to interfere in enterprise microeconomic decision-making as before. What is different is that, in the old command economy, administrative interference came from the highly centralized federal government, whereas under policentrism the interference comes from administrative agencies at the level of the republic, province or lower. Thus republics and provinces all are wildly carrying out regional protectionism, turning the unified national market into a welter of fragmented, autarkic markets. This not only leads to irrational resource use and undermines the efficiency of the national economy but also threatens political unity. Consequently, in amending her constitution in 1987, Yugoslavia placed special emphasis on the need to correct the deviation of "policentrism" and ordered that all macroeconomic indicators—such as issuing money, the tax system, foreign exchange, and exchange rates—affecting the integrity of the national market must be controlled by the federal government and not by the republics or provinces. We should conscientiously study these lessons so as to prevent further administrative devolution of power.

### **III. Lay the Groundwork for Completion of the Transition as Soon as Possible**

#### **A. Implement Public Finance After Cutting Off Enterprise Investment, Implement Local Responsibility Again**

**Jiang YWei:** I do not totally oppose the regional financial contract responsibility system. The problem is what kinds of things are to be included in the system. This involves the problem of separating the various types of finance, as in "dining finance" and "construction finance." "Dining finance" is public finance from which enterprise investment is excluded and is very difficult to achieve in pure form, because infrastructural construction, road and bridge building and other types of construction probably have to be undertaken by the government. The issues are whether or not the state should defray the investment made by profit-making enterprises, transforming finance into public finance. But resolving these problems involves the system itself. China's current system is a freak that has one head and two bodies. Government and enterprise comprise one body, and ownership rights and management authority, the other, but enterprise and ownership are combined in the head. So separation of government and ownership, an idea that is so often advocated, actually is impossible, as is separation of the "two powers." Only radical surgery, cutting into the head, can separate the authority to regulate the economy from property rights, and only when this is accomplished can we separate ownership rights from management authority, and only when these things are done can we start to think about carving a piece out of these "two powers" in the financial system.

The finances of the organs of state power can cover infrastructural projects and capital construction. But how will the investment system that has been removed from the body be established? Basically through self reproduction by means of the "rolling donkey" method. This will eliminate investment starvation. And after all of these things are accomplished, we can prevent local governments from running factories and avoid market fragmentation, regional protectionism and the like.

The regional financial contract responsibility system must also deal with the issue of how to develop the roles of key cities, a matter that has been ignored over the past 2 years and will be even more neglected once the regional financial contract responsibility system is instituted. Many urban comrades wonder what their cities will do when their provinces assume financial responsibility contracts. Contradictions between key cities listed separately in state plans and their provinces have always been great and will become even worse under the regional contract responsibility system. I favor granting key cities a bit more authority, because their radiative distribution role will make them less prone to regional autarky.

#### **B. Aggressively Accelerate the Transition to the New System**

**Lin Ling:** Summing up, this sort of regional contract responsibility system is not desirable. But since it has already taken shape, it will take some time to change it, so all we can do is to lay the groundwork to make it shift to the new system as soon as possible.

1. We must clearly demarcate economic administrative authority from the central government down to enterprises. I believe that one end of economic administrative authority should be the central government and the other, enterprises, with the middle echelon anchored in key cities. Given conditions in China, provinces must also be given a certain amount of authority.
2. We must separate the government's functions as owner of state property from the government's economic control and regulatory roles. Governments of all levels, especially financial agencies, serve as the actual representatives of state property and as the government's economic control and regulatory agencies. As the agents of property ownership, financial agencies become true investors, a fact that is inimical to economic development. Economists all agree that separate, independent agencies should be established to manage and operate state property. The government, which appears to have accepted this position, should try to implement it as fast as possible. The question of what the relationship between such agencies and financial departments should be can be explored at greater length. I believe the agencies should be fully independent of financial departments.

3. We must demarcate central and local operational and financial authority. The laws of the development of socialist commodity economy dictate that the function of government is to control and regulate the economy, not to serve as an economic actor, which role is supposed to be reserved for enterprises. Thus enterprises should replace the government as principal investors. But this is not to say that government must not engage in any investment any more. Infrastructural projects must still be funded by the government, but this funding should be carried out by investment corporations acting under government supervision. Investment for profit-making purposes, on the other hand, should be left to enterprises. Once this relationship is worked out, the spheres of authority over infrastructural and other types of investment (i.e., operational authority) between central and local governments must also be delineated. The range of local governments' financial authority should be set in accordance with the amount of operational authority they exercise.
4. After all these things are accomplished, we must design and implement a financial system incorporating tax sharing—one type of taxes would be controlled by the central government, another by local governments, and another shared. Local taxes tend to be piecemeal and relatively inelastic, so we should select shared taxes that have greater potential for revenue growth so as to mobilize the enthusiasm of all levels of local government
5. We must establish a tax administration system. Two different schemes have been proposed: (1) Establishing separate agencies for national and local taxes, and (2) creating a single agency to supervise administration of both types of taxes. I favor the first scheme.
6. Once enterprise reform is initiated, enterprises should be required to pay two kinds of levies: taxes and fees. The first, taxes, should be remitted to the state, which serves as the organ of political authority. The second, dividends, or a share of profits, should be paid to the agencies operating and managing state-owned property. Taxes may be paid separately by enterprises to the State Administration of Taxation and to local tax bureaus and need not be remitted all the way to the top for reapportionment to lower levels. Profits remaining after these taxes and fees are paid should rightfully and in conformity with the law belong to all the employees and become the collective property of the enterprise.

12431

**State Price Agency on Mid-Term Goal of Price Reform**  
40060404 *Chongqing GAIGE [REFORM]* in Chinese  
No 3, 10 May 88 pp 98-106

[Article by Price Research Center Task Group, State Administration of Commodity Prices: "Study of Mid-Term Goals of Price Reform"]

[Text] Price reform, which began in 1978, can roughly be divided into two stages. Before 1985, price reform was

essentially the adjustment of planned prices. After 1985, adjustment was accompanied by price deregulation, with emphasis on the latter. Coordinated with overall economic structural reform, price reform has resulted in moderate increases in the prices of agricultural products, energy, raw materials, and other primary products, which used to be underpriced. The traditional highly-centralized approach toward price management has been liberalized considerably. The entire pricing mechanism is moving in the direction of market regulation and prices are becoming increasingly effective as a regulator of production and consumption. But if the achievements of price reform are striking, so are the problems facing it.

That the retail price index has risen substantially 3 years in a row—8.8 percent in 1985, 6 percent in 1986, and 7.2 percent in 1987—is a major problem in economic life today. The retail price index is a general indicator of where price levels are headed for. Price increases of this magnitude have extremely unfavorable effects on society and the economy and prevent price reform from pushing ahead. With the new price management system and new pricing mechanism in a state of transitional uncertainty, the cumulative effects of contradictions and conflicts will negate some of the achievements of price reform.

At a time when the price level is rising sharply, price distortions remain and the price management system is still rigid. Price reform is still an arduous task. New distortions, moreover, have appeared in the past 2 years. If we compare the prices of commodities where price control has been lifted, prices tend to be high, and where price control remains in place, the commodities continue to be underpriced. Even for the same commodity, the planned price tends to be too low while the extra-plan price tends to be too high. The wide disparity between planned prices and market prices is the root cause of unfair competition in production and sales and purchases. At the same time, some inequitable price ratios have reappeared in the midst of successive rounds of price increases. The prices of industrial processed products have been raised to partly ease the pressure on costs, but at a faster rate than the pace at which the prices of energy and raw materials have been going up. Following increases in the prices of agricultural products, the prices of industrial goods have been increased, but only to exert new pressure on and become the reason for yet another round of increases in the prices of agricultural products.

Locked in an impasse, the two price management system—old and new—conflict with each other. The new system has yet to assert its dominance as direct state intervention in prices remains excessive. The government has deregulated some prices, but it has not introduced corresponding macroeconomic regulatory mechanisms. Price movements on the market are too haphazard. The pricing behavior of local authorities and enterprises is short-sighted. Fund-raising in its assorted forms and the circulation of commodities are putting worsening pressure on the price level. The shortcomings of the dual pricing system have gotten to a stage where they are intolerable.

Among the problems facing price reform, some have to do with the intrinsic inadequacy of price reform itself. Others mirror the entire macroeconomic climate.

While price reform has run into new problems and contradictions, the direction of reform is not to be doubted. Only reform can resolve the problems that have appeared in reform. In view of the present situation—skyrocketing prices, the recurrence of old price ratios, and an unsound price management system, the intensification of price reform can only take place when we assiduously and steadily restrain price increases and improve the macroeconomic climate.

### I. Assessing the Price Reform Climate

Regarding the measures to be taken to further reform, some people argue that prices have risen so much that they now constitute a threat to social stability. Our top priority now, therefore, is price stabilization—bringing down the increase in the annual price index to below 3 percent over the next few years. Only then can we resume price reform. Others hold that the price system and management system are riddled with problems. If we put reform on hold until the climate becomes favorable, then bad practices will only harden further. Instead, they argue, price reform should take the initiative by linking price increases to wage increases, making it easier for the masses to cope with inflation, and push ahead full steam. But how do we know when is the most opportune moment to act? What form should reform take? This requires that we begin by evaluating and appraising the reform climate.

In our opinion, the following points are the starting points for further reform:

- 1. Because of the absence of indirect macroeconomic regulating tools, we need to step up administrative guidance over prices, strengthen and improve state guiding prices, and better the macroeconomic climate.** Hefty price increases 3 years in a row are closely related to unfavorable macroeconomic conditions. The difficulties price reform has run into recently also were caused by such unfavorable conditions, one of the most important being too much money in circulation. The CPC Central Committee has now decided to limit the growth of the money supply in 1988 to below 13 percent. Reacting to this, some people think that provided the money supply is put on a tight leash this year, we can expect a more relaxed economic climate in 1989 and push on with price reform. Others argue that a 13 percent increase on top of the excessive expansion in the past several years is still on the high side. Even if money is put into circulation at the same pace as economic growth in 1988, prices would continue to surge upward on their own. And if money is put into circulation faster than economic growth, then the economic climate in the days ahead will be much worse, accompanied by a corresponding spurt in the overall price level. Yet a third opinion is

that government resolve alone does not decide whether or not the money supply can be reined in. As long as economic mechanisms remain unchanged, it is difficult to make the money supply increase at an ideal rate. Thus a major objective of price reform in the next few years should be a more relaxed macroeconomic climate. We must fully appreciate the difficulty of improving the macroeconomic conditions and should not wait until the macroeconomic environment has improved before going ahead with price reform. Very likely price reform may have to take place before inflation is brought under complete control. Comprehensive deployment by the state of indirect macroeconomic control tools should be the primary method to eliminate inflationary pressures. But since the economic system is still being reformed, the establishment of effective macroeconomic regulating tools is often hampered by the existing system. As a result, the most effective tools of macroeconomic regulation remain administrative ones. The state guiding price is an appropriate vehicle whereby the state can combine administrative with economic regulation. It is also a composite price, combining the maximum price, minimum price, the extent of fluctuation, regional price ratio, and the negotiated prices for different commodities approved by the State Administration of Commodity Prices. The mandatory state guiding price is less rigid than the official price. At the same time, it is more reflective of state policy intent than the market price. It is flexible up to a point, changes in a timely way, and gives the enterprise some leeway in price decision-making. While it cannot change the direction of price movements, it can influence the temporal and spatial aspects of price movements. Many people think that the state guiding price is similar to the official price and therefore deny the significance of its existence. That is a one-sided view. Even the maximum price gives the operator whose prices are lower some room to maneuver. The state guiding price proves effective for the period during which the operator adjusts his prices and effectively controls price increases.

- 2. Both economic growth and the expansion of the money supply should be brought under control, but no fundamental improvement should be expected in the period under study.** Since 1985, reform has been taking place in a strained climate. The imbalance between total supply and demand, the extraordinary expansion of the money supply, and the dual explosion of investment and consumption have led to steep price increases several years in a row. It is imperative, therefore, that economic growth and the money supply be brought under control appropriately. However, neither runaway economic growth nor the inflated money supply is the reason for economic strains. Rather, they are the symptoms of economic strains. There are many things in China's current economic operating mechanisms which cause the economy to overheat and the money supply to expand too fast.

—The economy has been growing rapidly for many years and it takes time to turn this around. The

central government has spoken out against this state of affairs many times in the past few years, but since economic growth is used as a criterion in the evaluation of government leaders, fast economic growth and a ballooning money supply are unavoidable.

—Behind a high accumulation of 34-35 percent are projects currently under construction worth hundreds of millions of yuan, a massive construction army, and a vast machinery industry operating under capacity. They constitute a potential barrier to any effort to cut back on accumulation. It is impossible to overhaul the industrial structure overnight.

—Right now we have a consumption explosion even as some people are experiencing a decline in living standards. The income gap is widening between those who are the first to get rich and those left behind. There is a mismatch between the incomes of simple laborers and those of complex laborers. In addition, the reform of enterprise operating mechanisms has encouraged the workers to increase their incomes, which only complicates the task of holding down consumption.

—Population pressures and the need to provide jobs have been on an upward path continuously. Since 1979, we have found jobs for 80 million people. In addition, 90 million peasants have left agriculture. Job creation will remain a difficult mission in the future. The policy of full employment militates against competition between workers and the development of a labor market and saddles society with a heavy burden. To create job opportunities, we have been boosting production capacity and stepping up public works construction. A substantial portion of our capital construction has been undertaken in order to create jobs. Excessive employment has given the green light to the expansion of consumption funds. So far we have not solved the problem of creating jobs for young people or for peasants leaving agriculture for other forms of employment.

—It will take a long time to reform the circulation system and enterprise operating mechanisms and to develop and perfect the commodity market and the capital goods market.

All this shows that price reformers must move ahead steadily and make a major effort to overhaul the economic climate. Price reform will be accompanied by high inflation for some time to come.

**3. Price reform cannot be side-stepped but should be undertaken in coordination with reforms in other areas.** Faced with the grim economic situation, some people think that we must first tackle the macroeconomic

climate to provide the necessary conditions for furthering price reform, in effect, side-step or postpone price reform. In our opinion, price reform can neither be side-stepped nor postponed for a number of years. The CPC Central Committee has now decided to stabilize the economy and prices this year, shelving major price reform measures. But such a policy cannot continue into 1990 for these reasons: 1) With the price ratios of agricultural products getting increasingly distorted, we cannot postpone sorting out agricultural prices any longer. In the case of industrial capital goods, dual pricing has led to chaos in certain parts of economic life. Here too any delay to act would be intolerable. The same can be said about the prices of certain industrial consumer goods. Enterprises cannot assume responsibility for their profits and losses until they are given the power to set prices for their products. And the development and perfection of market mechanisms is simply inseparable from the establishment of a new price system. 2) Progress in economic structural reform will necessarily expedite price reform, not allowing it to stand still. For example, foreign trade reform will inevitably lead to the reform of the prices of export and import commodities. Reform in the materials system cannot but give impetus to the reform of the prices of capital goods. Commercial reform will fuel the reform of the price system in the circulation system. And reforms in enterprise operating mechanisms will lead to the reform of the prices of various commodities and capital goods. Thus the idea of putting price reform on hold is not a practical one. 3) Price reform itself is also a means of improving the economic climate. One basic function of prices is to balance supply with demand. In the short run, supply and demand will remain out of balance in both overall volume and structure. Prices can be manipulated to regulate this imbalance. To bypass price reform therefore is logically unjustifiable, while postponing it impractical.

Price reform must be intensified, but not in isolation. It must be accompanied by other coordinated reforms. Price reform and the development of the market must proceed in tandem. Without price reform, the market cannot develop. Without the market, price reform will go nowhere. Still, we must not equate one with the other. Price reform lies at the heart of any effort to improve the market, but improving the market also requires other reforms. Thus price reform must be seen as part of the overall reform to improve market operating mechanisms and must be carried out in conjunction with other reforms aimed at improving enterprise operating mechanisms and the planning, investment, circulation, labor, financial, tax, and banking systems.

## II. Overall Design for Price Reform

Based on the above analysis, we have arrived at these general objectives for price reform.

The period from 1988 to 1995 is a transitional period in which price reform moves toward its general objectives.

During this transitional stage, the two systems—old and new—coexist and clash with each other. Market mechanisms are developing but have not been perfected. Local authorities and enterprises are acutely aware of the need to build a commodity economy, but many of them are short-sighted and erratic in their behavior. While the state is gradually abandoning tools of direct control, it is not yet adept at regulating the economy indirectly. The masses support reform but have overly high expectations of its ability to improve their lives. At a time when the economic climate is strained, in particular, price improvements and partial adjustments may lead to all-round inflation. For these reasons, we should devise special arrangements for the transitional period. As we see it, the transitional model should be an incomplete market system where mandatory guidance, economic regulation, and indirect control coexist, with mandatory guiding prices playing the dominant role. While such prices may not account for a majority of total sales volume, they should be applied to key commodities impacting the nation's economy and the people's livelihood. By regulating the prices of a select number of products, we can then use the experience to control the whole situation. Mandatory state guiding prices are a special form of price unique to the transitional period. By the end of the Eighth 5-Year Plan, they will lose their importance and be replaced by either official prices or market prices. The transitional model will then give way to the general model, where controlled market prices prevail.

Specifically, the objective of price reform in the short run is to reduce the scope of dual pricing in the case of key elements of production in industry. For some elements, dual pricing should largely become single pricing. For others, the gap between the two should be narrowed. For yet others still, price control should basically be lifted. In the case of elements of production whose supply is limited as they are natural resources and which are of a monopolistic nature, their official prices should remain restrictive and lower than reasonable prices. Where prices have been deregulated, a substantial number of elements of production would still be subject to mandatory state guiding prices. Overall, the procurement prices of agricultural products should not go up by a significant margin, with contract procurement prices rising moderately and some non-contract procurement prices coming under more extensive mandatory guidance. The prices of industrial consumer goods should increase gradually. More and more, high-quality upscale consumer goods will be sold at high prices. Food prices would edge up slowly. Grain subsidies will not be reduced sharply. It will remain the prime responsibility of municipal authorities in large and medium-sized cities to prevent excessive increases in the prices of meat, eggs, and vegetables. Everything should be done to make sure that, discounting inflation, the retail price index rises no more than 5 percent each year as a result of the structural adjustments due to price reform.

During this plan period, both the price system and price management system should proceed toward the overall objective for price reform emphasized yet again at the 13th NPC, namely, energetically and steadily push ahead

with price reform, straighten out commodity prices and the prices of various elements of production, and gradually put together a system in which a handful of essential commodity and labor prices remain under state management while the majority of commodity and labor prices are regulated by the market. Practically speaking, if we are to realize this objective, we should not control the prices of the various commodities and elements of production. Instead they should be determined by the principle of price formation. State intervention in individual commodities or elements of production should be effected primarily through economic tools. There should be two forms of pricing, official prices set by the state and market-regulated prices. When the state deems it necessary to intervene in the market prices of certain commodities, it may provide guidance, which should essentially be non-coercive. Where coercive guidance is needed, it should be of a limited duration and targeted. It is projected that by 1995, we would still be some way from this objective. By the end of the Eighth 5-Year Plan, we will still retain a considerable number of mandatory state guiding prices and some competitive commodities will still have official prices, which would remain definitely restrictive.

### III. Specific Ideas for Price Reform

#### 1. Prices of Agricultural Products

During the past 9 years, agricultural price reform, coupled with the output-related system of contracted responsibility, has spurred the long-suppressed production initiative of the peasants tremendously, resulting in extraordinary gains in agricultural output for a brief period. But then as the agricultural labor force and farming techniques remained unchanged, the original price reform has lost much of its stimulatory effects on output. At present, the prices of agricultural products are fluctuating fairly sharply. The danger of successive increases in internal price ratios also looms on the horizon. If agricultural production needs to advance to a new level, it is even more imperative than the reform of agricultural prices be intensified further. The first phase of rural economic reform was characterized by the replacement of traditional collective production by the family output-related system of contracted responsibility. The second phase will focus on readjusting the rural industrial structure and increasing the scale of land operations in order to gradually move the excessive rural labor force languishing in agriculture into other areas. It should be the aim of the intensification of the reform of agricultural prices to promote the above development strategy.

With this as our strategic objective, what tactics should we adopt to reform agricultural prices? Because the supply of agricultural products is highly inelastic and because land resources are limited, total market regulation will only cause agricultural prices to skyrocket. The keynote of agricultural price reform in the future therefore is to coordinate such reform with rural economic

reform and increase the procurement prices of agricultural products in a planned way. In the next 8 years, the main assignment of reformers is not to expand the role of market regulation in agricultural prices, but to consolidate what we have already accomplished—a situation in which planned prices (contract procurement prices and state guiding prices) and market prices each account for half of the prices. Specifically, we should raise the overall level of farm prices appropriately so that the exchange price differentials between industrial and agricultural products will not widen, gradually put an end to the underpricing of farm produce by raising the contract procurement prices, price cash crops properly using grain prices as a point of reference, introduce mandatory state guiding prices for the more important cash crops which have been deregulated, and impose a special product tax to prevent excessive price fluctuations.

We must introduce a quota procurement system with regard to key agricultural products in order to minimize the sharp fluctuations in agricultural output and prices caused by demand changes following the abolition of the state monopoly on purchase and marketing, re-create an agricultural production planning system, and stabilize the prices of agricultural products. The various sectors should not procure over and above their quotas. Those sectors which have not been allocated quotas should not procure agricultural products. At the same time, we should explore the possibility of setting up a futures market for agricultural products. With a futures market, we can predetermine the varieties, quantities, and prices of agricultural output in the form of a contract or promissory note one year in advance and give them legal guarantee. That way fluctuations in output and prices resulting from bumper harvests or crop failures are avoided and the risk of agricultural production dispersed.

## 2. The Prices of Capital Goods in Industry

The reform of the prices of capital goods in industry must be considered in the context of the overall macroeconomic climate and urban economic reform. In essence, means of industrial production are inputs. The fact that China's economy is developing rapidly determines that there will be a shortage of means of industrial production and that their prices will keep going up. The expansion of the product market and the development of a market for capital goods have created a market atmosphere in the reform of the prices of means of industrial production. As part of urban economic reform, which has been under way in recent years and which revolves around enterprise vitalization, authority has been delegated to enterprises, taxes have replaced profits, and enterprises have gone into contracting. In the process, a demand has risen for more flexibility and stability in the prices of capital goods. Accompanying the demand is the need to prevent prices from rising too rapidly, which will have a strong impact on subsequent products.

Based on these demands, our hope in the early phase of reform was to reduce the proportion of planned prices

and increase that of market prices in order to establish a capital goods market and bring the two sets of prices closer as out-of-plan prices came to account for a rising share of prices. But as the two sets of prices drift further and further apart and as out-of-plan prices keep rising unchecked in recent years, people have begun to wonder whether the approach of using dual pricing as a transitional measure will really work. Some people argue that we should deregulate prices all round as soon as possible, abolish planned prices, and create a market. To do so at a time when total demand exceeds total supply, however, may lead to a sharp bout of inflation, something unacceptable to society. Others suggest that we should not introduce non-plan prices to key capital goods. Instead, we should cancel them and reimpose a single price on each product. As we see it, dual pricing has its pros and cons and some problems have gotten very serious at the moment. We should adopt different methods to suit the specific conditions in each industry and each product variety.

To fix dual pricing is the task of the reformers of the prices of capital goods in the first half of this period. Every effort should be made to replace dual pricing with unitary pricing using a multitude of approaches and methods in the next 3 to 5 years. In broad outline, this is what price reform should achieve. Mandatory official prices should be introduced for commodities whose supply is limited because they are natural resources and whose production is of a monopolistic nature as well as commodities which are competitive and whose supply is seriously out of step with demand. Mandatory state guiding prices should be introduced for commodities which have been totally deregulated but which are in such short supply as to have serious effects on market prices. As for the majority of capital goods, their prices should largely be deregulated, although some should retain mandatory official prices. By the end of this period, the prices of energy products should draw closer to those of their international counterparts, but they should still be 30 percent less expensive so that Chinese enterprises can stay competitive internationally.

## 3. Prices of Consumer Goods

As far as prices are concerned, consumer goods currently are being "squeezed in the middle." The prices of consumer goods have an impact on the masses' food budgets and their movements are restricted by how much workers earn. On the other hand, with the prices of raw materials and fuels going up endlessly, enterprises which make consumer goods also see their costs increase steadily. Whether price control stays or is abolished, it is difficult to satisfy both enterprises and consumers. Give enterprises the authority to set prices, and they will pass on the burden to consumers to an even greater extent. Let price control stay, and enterprises will lose vitality and reduce supplies. In recent years, public dissatisfaction with price reform was also caused primarily by the soaring prices of consumer goods, despite numerous measures by governments at all levels to stabilize such

prices. Thus, one school of thought argues, price stabilization first, reform later. However, if we compare price increases with consumer goods shortages, the latter is a worse problem. Moreover, most consumer goods have a short production cycle and a high degree of supply elasticity. Their output too is highly sensitive to price stimuli. For these reasons, price reform must stay firmly on course, accommodating both sides and emphasizing production. Its major thrust should be price decontrol even as a variety of measures, including price subsidies, the pegging of wages to prices, and provisional mandatory state guiding prices, are taken to moderate the negative effects of price increases.

The prime purpose of the reform of consumer goods prices in the plan period is to stimulate production and restrain demand. We cannot put off such reform until the latter part of this period. The reform objective is to let the market regulate the prices of the vast majority of commodities by 1995, while a handful of key consumer goods will retain state official or guiding prices. Some commodities will be subject to indirect economic regulation by the state, that is, incomplete market regulation.

The reform of consumer goods prices should be related to the consumption habits and patterns of the Chinese people. The consumption priorities of the Chinese people are basically food, clothing, and articles of daily use, in that order. The prices of high-priority products are highly demand-inelastic, while those of lower priority are more demand-elastic. Based on actual income levels in China, since food items are demand-inelastic, there should be limits on how high their prices can go. On the other hand, price control on clothing and articles of daily use may be lifted. If necessary, state guiding prices may be introduced in these cases.

Of the prices of all consumer goods, food prices are the most sensitive and have the largest impact on workers' livelihood. One principle price reform must adhere to is to ensure that people do not suffer a decline in living standards. Only premature consumption should be restrained. Ending the mismatch between the buying and selling prices of grain should be put off until the latter part of this period. Central to the reform of consumer goods prices is the issue of meat prices. Short-term pork prices are determined in relation to grain prices on the market; they should go up as grain prices go up. Care must be taken, however, to avoid the cyclical pattern in which one year of grain abundance is followed by another year of cheap pork and yet another year of scarce pork the year later. This can be achieved by having the government support pig-raising, on the one hand, and making use of the circulation system for regulatory purposes, on the other. Right now all large and medium-sized cities have resumed price subsidies. However, subsidies on a very generous scale cannot go on forever. Selling prices should increase as procurement prices increase. Poultry, eggs, and popular vegetables should remain under state guiding prices in various forms. The prices of high-grade vegetables should strictly be market-regulated.

In view of a shortage of raw materials in recent years, the prices of industrial consumer goods made of agricultural products, such as cotton goods, sugar, and salt, should be increased depending on the prices of their raw materials. In the latter part of this period, these prices should be replaced by mandatory guiding prices. Price control on woollen and silk knitwear, leather goods, cigarettes, and liquors may be lifted. Among these categories of goods, the more upscale items and others which compete with exports for raw materials should carry a high price tag to be determined by the state in order to hold down consumption.

Price control on industrial consumer goods made of industrial goods should be lifted. Enterprises should be free to set prices for these products. Year by year, the gap is widening between the supply of consumer goods on the market and what the people can afford to pay with their newly-acquired purchasing power. In particularly short supply are high-quality, brand-name durable consumer goods. The result is involuntary savings on a substantial scale as people hang on to their cash while they wait to buy the products. Accordingly, high taxes should be imposed on upscale goods to keep their prices high. Part of the taxes thus collected can be returned to the economy by increasing the money supply to maintain a balanced market.

#### 4. Transportation Costs and Posts and Telecommunications Charges

As the cornerstone of national economic development, communication and transportation is intimately related to every industry and trade. Since there is concern that one move here may affect the entire economy, transportation costs have been the least touched upon of all prices. The problems here are also more acute. For one thing, the overall freight level is too low. Much of whatever freight increases there have been in recent years has been wiped out by increases in the costs of raw materials and higher payrolls. The capital return rates of most transportation enterprises are lower than the average return rate of the nation's industrial and transportation enterprises. Second, there are unjustifiable differences in freight between the various means of transportation. While rail freight is too low, road freight is too high. Shipping charges are more or less the same as rail freight. This freight structure steers large numbers of passengers and large volumes of cargo toward rail transport. Third, within the same means of transportation, there are irrational price differentials between various forms of transport. When the problem cannot be solved through the normal channels, the sectors and enterprises try to sidestep it by raising prices on the sly. For instance, a rail user is made to pay miscellaneous fees and charges known by all sorts of names and ends up paying far more in out-of-plan charges than regular fees. Accordingly, transportation costs must be reformed steadily.

The tasks of the reformers of transportation charges in this period are: 1) gradually increase the level of transportation charges, offset the rise in costs, and make it

possible for enterprises to make a decent profit; 2) widen regional price differentials and quality price differentials. Widen freight differentials between the various means of transportation, using the railway as the point of reference. Measures should be taken to encourage the combined use of road and rail transportation and of rail and water transportation; 3) clearly delineate price management jurisdictions. Rail freight and air freight, both passenger and cargo, are under state management. There should be no dual pricing in these areas. The charges of other means of transportation are a local responsibility. Freight charged by non-state-operated vehicles and inland shipping costs may be deregulated. Alternatively, state guiding prices may apply here.

The main problem regarding postal charges is that they are too low on the whole. They should be adjusted in a planned way under state direction. Every round of adjustment should abide by the principle that while profits should be small, the enterprise should at least be able to break even. Adjustments should not be excessive. Also, there should be different schedules of postal charges for residents, on the one hand, and government and enterprises, on the other, keeping the former at a relatively low level to maintain public confidence. Charges for the latter can be made a little higher to encourage government, institutions, and enterprises to cut back on expenditures. As modern means of communications develop, we also should gradually widen price differentials between modern means of communications and their traditional counterparts to spur the modernization of means of communications.

##### **5. Fees Charged by Public Utilities and Services**

Social welfare in China is a mammoth undertaking. Public utilities like the supply of running water, urban public transportation, gas, medical services, and rents are all of a welfare nature. In line with workers' low incomes, social welfare in China is characterized by distribution in kind. This kind of distribution stimulates social consumption demand and social extravagance and interferes with the positive circulation in the national economy. Reform is imperative under these circumstances. Where fees are too low, they should be revised appropriately. The problem is that there are too many social welfare items and their coverage is too extensive. To raise charges across the board is bound to lead to serious social repercussions. As a result, we must work out a practical and feasible method and take reality as our starting point. We must preserve the welfare nature of public utilities even as we make them more economically viable.

Reform must abide by these principles: 1) Profits may be small but not so small that the enterprise cannot break even. We must treat different utilities or services differently, depending on their respective circumstances, and increase prices or fees step by step so that over time the enterprises can break even or become less dependent on state subsidies; 2) Walking on two legs. On the one hand,

commodity prices and service charges intimately related to citizens' livelihood should be strictly managed to prevent any excessive increases. Examples are domestic water supply, tram fares, domestic gas, and general medical services, among other things. On the other hand, a minority of commodity prices and service charges have no direct bearing on people's livelihood. They can be decontrolled and be regulated by the market. Examples are industrial water supply and taxi fares; and 3) Delegate price control and permit local authorities to adopt a variety of guiding prices in line with local conditions.

#### **IV. Some Policy Issues on Price Reform**

##### **1. Strengthen the Commodity Price Management Agencies and Tools of the State**

The existing single-function commodity price management agencies and methods have proved unequal to the daunting task of price reform. Here the state should act decisively to create a commodity price management organ charged with the responsibility of comprehensive guidance and coordination—a commodity price commission at each level. The main functions of these commissions should be as follows: 1) In light of the overall demands of national economic development and reform, draw up price reform plans and set price control objectives for different periods and regions. Work out price policies. Draw up various price management laws and regulations. Devise supervision and inspection systems; 2) take part in government economic decision-making and establish a close working relationship with departments in charge of planning, finance, industry, agriculture, commerce, banking, wages, foreign trade, and other related areas; 3) transform price work from simple management into a management service and, working within the framework of the commodity price agencies, make appropriate adjustments in light of the above demands.

To make full use of commodity price agencies in stabilizing market prices, we should set up a specialized market price stabilization fund under their direct control and deployment. This fund can serve as an important means of meeting the price control objectives each year. The specialized fund should be operated as a genuine fund. In other words, an amount of money should be deposited as a lump sum in a bank when the fund is first set up. In general, specialized funds should be created, managed, and used by local authorities at each level. To make sure they are run and utilized properly, local governments at all levels may authorize commodity price agencies at the corresponding level to establish such funds to be made up of representatives from commodity price agencies, industry and commerce administrations, finance departments, banks, trade unions, and consumers.

## 2. Speed Up the Formulation of a Price Law and Strengthen Supervision and Inspection Organs Charged With Enforcing Such a Law.

A commodity price supervision and inspection system based on laws and regulations should be set up without delay. In view of the current reality, we should begin by drawing up these laws and regulations: 1) fair market exchange and consumer protection law. Fraud in all forms and other illegal means to enrich oneself should be strictly forbidden to ensure that consumer interests will not be violated; 2) anti-monopoly law. Inter-regional and inter-industry blockades should be outlawed, as should any attempt to form monopolistic or discriminatory prices by an industry (sector) or region; 3) anti-profiteering law to make it illegal for any individual or business to engage in hoarding and speculation, jack up prices, or use other improper means to reap huge profits by exploiting short-term shortages on the market.

Meanwhile, we should also establish a complete price supervision and inspection system, reinforce price inspection and enforcement organs, expand the jurisdiction of existing price inspection organs, and introduce vertical leadership for inspection contingents at all levels. Right now we may consider stationing commodity price inspectors at large and medium-sized enterprises. Small enterprises and self-employed individuals should also be subject to financial oversight.

## 3. Establish a Worker Income Compensation System

Price fluctuations caused by price reform will inevitably alter the existing structure of income distribution. If we look at the wage-price relationship since 1978 when economic structural reform began, the average worker's cash income has been increasing each year more rapidly than price increases, with the exception of 1981. Why then do employees and workers generally feel that their real earnings have not gone up and even have a negative opinion of price reform? These are the only possible reasons. 1) Price subsidies are not clearly understood. Their distinctions with wages and bonuses are blurred. As a result, workers are misled into assuming that price subsidies are also compensation for their labor and rewards for exceeding the quotas. 2) The lack of institutionalization of price subsidies has put citizens under tremendous psychological pressure. "Price phobia syndrome" is spreading rapidly among workers. 3) China's existing differential wages and structural wages are relatively low. What really offsets inflation is things like bonuses and welfare. As non-wage incomes account for a rising share of a worker's total incomes in recent years, income disparities between different social strata have widened significantly. The wages of workers in government departments and institutions and in the sectors of education, culture, and sanitation have remained relatively stable and not risen enough to offset price

increases, thus resulting in a net decline in living standards. As part of our reform, therefore, we must establish a worker income compensation system that is sensitive to price movements.

We propose that a worker's basic living expenditures be pegged to the corresponding price index. The actual formula should be as follows:

Worker's annual price subsidies = worker's annual basic living expenditures x coefficient of average number of dependents per worker x worker's basic living consumer goods price index.

To arrive at the worker's basic annual living expenditures, we can take a certain percentage (about 70 percent) of the worker's living expenditures in the preceding year. Nationwide, the coefficient of the average number of dependents per worker is 1.70. One difficulty is working out the basic living consumer goods price index. On the one hand, we must select those items which are representative. On the other hand, we must ensure that we have a proper mix of list prices, negotiated prices, and market prices among the prices selected so that the resultant index is in line with the feelings of most middle- and low-income families. The amount of price subsidies should be worked out at the beginning of the year based on the data for the year before and should be issued in equal monthly payments. Because the state is financially strapped and in order to prevent wage-price spirals, price subsidies in principle should be financed jointly by the state, local governments, and enterprises. Finance departments at the local level should be responsible for paying out local price subsidies. The price subsidies of an enterprise should not be counted as part of its costs. They should come from the three funds in order to prevent bonuses from rising too rapidly.

12581

**Participation in 'Great International Circle'**  
40060454A Beijing ZHONGGUO JINGJI TIZHI  
GAIGE [CHINA ECONOMIC SYSTEM REFORM] in  
Chinese No 6, 23 Jun 88 p 21

[Article by Li Huayan 2621 5478 0061: "Scope, Extent of Participation in 'Great International Circle' Discussed"]

[Text] Both opening up to the outside world and participation in the great international circle involve the problem of expanding scope and increasing extent. Without a certain scope, there is a lack of prerequisites or basis for furthering the extent. Without extent, it is impossible to obtain all of the benefits of the great international circle. Here we will discuss the problem of the scope and extent of participation in the great international circle solely from the viewpoint of foreign trade.

**1. Paying Close Attention to Labor-Intensive Product Exports, and Further Expansion of the Scope of Participation in the Great International Circle**

Labor-intensive products are generally low-added value products, while technology-intensive products are generally multiple-processed, high-added value products. Both the production and export of these two are rational, and in principle supplement each other. Viewed overall, China's current level of industrial technology is relatively low, and there are several restricting factors, with regard to both the system and policy, which are difficult to eliminate in a short period of time, and it is unrealistic to expect to greatly increase technology-intensive product exports and make them the main source of foreign exchange an important source of national construction in a short time. China has an abundant labor force, but raw materials and capital are in relatively short supply. In view of the above circumstances, vigorous development of labor-intensive product exports and imported raw materials processing is advantageous to the better utilization of international resources and international markets, as well as to the accumulation of construction funds, acceleration of the process of modernization, and creation of conditions favorable to the future exportation of more high added value, technology-intensive products.

For a very long period in the past, because of a lack of understanding of the importance and possibility of participation in the great international circle, and also because undue emphasis was put on expanding exports of technology-intensive products, inadequate attention and encouragement were given to labor-intensive product exports, and there was no conscientious effort to eliminate the many obstacles in the system and policy. For example, an irrational foreign exchange management and distribution system made it difficult for enterprises to obtain the foreign exchange needed to implement processing of imported raw materials; the tax burden on imported raw materials processing was excessively heavy, and often made enterprises unprofitable or caused the products to lose competitiveness on the international market. Moreover, foreign trade management authority was overly centralized, seriously dampening zeal in various areas and sectors, especially enterprise export expansion. We now have a new understanding of labor-intensive product exports. There is an important connection between this new understanding and such proposals as the "large volume of imports and exports" and the "coastal development strategy". The state is currently reforming and adjusting the legal system and policies, and removing to the greatest possible extent various kinds of artificial obstacles, in order to allow exports of labor-intensive products to develop fully. In this way, the number of enterprises which directly utilize international resources and participate in international market competition can double and redouble. In a certain sense, the scope of China's opening up to the outside world and participation in the great international circle will expand rapidly.

**2. Continuing Support for Technology-Intensive Product Exports, and Constant Furthering of the Extent of Participation in the Great International Circle**

While acknowledging China's reality, and acknowledging the importance to us today of expanding labor-intensive product exports, we must not forget the clearly advantageous position occupied by technology-intensive products in international exchange. (1) Labor-intensive products generally have a relatively low added value rate; for example, China's current added value rate for labor-intensive products exported by the imported raw materials processing method is only about 20-40 percent. In comparatively developed industrial countries, the added value rate for technology-intensive product exports has reached several hundred percent, over 1000 percent, and even several thousand percent, which gives them the great advantage of large net inflow of resources and capital accumulation. Because technology-intensive products often go through many working procedures and processing by many factories, a large number of enterprises can participate directly in the great international circle, and utilize international resources and international markets. (2) As a general tendency, the capacity of the technology-intensive product market is large, its rate of growth is high, technological progress is rapid, and prices show a tendency to rise, while the capacity of the labor-intensive product market is relatively small, the proportion of the market which it accounts for shows a downward trend, and prices are unstable. (3) A fixed industrial base is a prerequisite for expanding technology-intensive product exports, and export of this kind of product also, in turn, forcefully promotes the growth of the nation's economy and the raising of its technological level, and is thus beneficial to the increase of national strength. The greater a nation's volume of technology-intensive product exports, and the larger their proportion, the greater will be the advantage that nations will receive in the international division of labor and exchange, and in a certain sense, the greater will be the extent of the nation's opening up to the outside world, and of its participation in the great international circle. It is undoubtedly a big mistake for a nation not to give full play to its industrial potential, not to endeavor to expand its technology-intensive product exports, and not to increase to the utmost the extent of its participation in the great international circle. Naturally, it is also a mistake to give undue emphasis to expanding technology-intensive product exports, and to ignore or artificially restrict labor-intensive product exports.

There has been a considerable amount of publicity from concerned circles in recent years about the importance of technology-intensive product exports, and several supporting policies have also been made, while not enough attention has been paid to expanding labor-intensive product exports, causing people to have the wrong impression, and mistakenly believe that technology-intensive product export policy was already very sound and perfect, and that now that we want to vigorously increase labor-intensive product exports, we can reduce

our support for technology-intensive product exports, relax the relevant policies and system, and make improvements. I believe that, in general, our current system and policies are not very appropriate for expanding either labor-intensive or technology-intensive product exports, and that inadequate play has been given to the strength of China's labor force, or to the latent strength of its existing industrial production capability and level of technology. Expanding labor-intensive product exports calls for adopting the method of relaxing restrictions and further reforming the foreign trade, foreign exchange, and customs systems, in order to facilitate the realization of "a large volume of imports and exports", while it is inadvisable to adopt the method of abandoning industrial policy and reducing support for technology-intensive product exports. The latter method would be detrimental to long-term interests and would be of no benefit to current expansion of labor-intensive product exports.

It should be the state's firm and unshakeable long-term policy to continue reforming and perfecting the system and policies, and support technology-intensive product exports. Since the transfer of power to lower levels and allocation of responsibility to local governments for the completion of assigned tasks have been implemented with regard to foreign trade, the responsibility of local governments for carrying out the above policies has increased greatly. It should be stated that support for technology-intensive product exports is not only in line with the interests of the state as a whole, it is also in line with the long-term interests of local governments. A troubling phenomenon has now appeared in a small number of localities. Some foreign trade enterprises and industrial commodity enterprises which enjoy high foreign exchange retention and other preferential treatment are not endeavoring to export the technology-intensive products which they should be making major efforts to export, and instead are vying with less-advantaged enterprises to purchase other commodities and sell them abroad at low prices. This has on the one hand disrupted the normal export order of other commodities, creating and "outflow of profits", and has on the other hand dealt a serious blow to technology-intensive product exports. Local governments and concerned parties should pay close attention to this, and take resolute measures to resolve it.

13387

**Exploring Changes in Price Levels**  
40060454B Beijing ZHONGGUO JINGJI TIZHI  
GAIGE [CHINA ECONOMIC SYSTEM REFORM]  
in Chinese No 6, 23 Jun 88, p 23

[Article by Di Shi 6611 1395: "Changes in Price Levels Explored"]

[Text] Price is the heart of economic movement, and is also currently a hot topic of discussion, receiving attention from all quarters. Therefore, we will discuss here some views of the price issue.

### 1. Changes in the Price Level Are in Accord With Economic Law

At present, every country in the world without exception is experiencing price level fluctuations, and it has become an objective law unchangeable by human will that, particularly during periods of economic take-off, the price level generally rises by a relatively wide margin. This is because there are many causes of changes in the price level: causes related to the rise of production factor prices, as well as economy- and policy-related causes; fiscal and monetary influences, as well as influences related to production, circulation, and distribution. These many objective factors determine the regular changes in the price level, and it is therefore said that price level is an active factor in economic life. Under the old economic system, however, economic movement was brought about primarily through national economic planning and state-formulated planned prices; planned economy was set against commodity economy, the law of value was rejected or played down, and administrative measures and directive planning alone were relied upon for organizing complex, changeable economic activities. Under these circumstances, price could be regarded only as an accounting method, while the role of regulating production, circulation, and distribution, as well as guiding consumption, could not be given full play; price level could not change along with the objective factors, the relationship between supply and demand was reduced to a secondary position, and price level fluctuations were often controlled through administrative measures and fiscal subsidies, creating the temporary illusion of stability, with the result that fiscal price subsidies increased year by year. This not only increased the fiscal burden, and affected economic construction and development, but also caused further distortion with regard to wages and the price system.

### 2. It Is Necessary To Reform Irrational Price Systems and Price Control Systems

There is a cause-and-effect relationship among the many objective factors which form the price level. A static price level inevitably leads to an irrational price system, and an irrational price system not only cannot accurately reflect the true value of commodities, and goes against the principle of exchange of equal values, but also often turns returns from input products into easy profits from output products. Under these circumstances, the amount of an enterprise's profits depends not on the quality of its own operation, but on whether prices are high or low. This both distorts the real results of production and operation, creating lopsided profits, and also leads to unchecked development of high-cost, high-profit products, creating overstocking, loss, and waste of resources, while some low-cost, low-profit products, particularly agricultural byproducts and primary products, develop slowly due to long-term low prices, creating shortages and loss of balance, throwing the economic structure into chaos, causing unbalanced development among industries, and restricting economic growth, which is very

disadvantageous to the development of social productive force. At the same time, in a situation in which the old system is being replaced by a new system, an irrational price system on the one hand weakens the role of economic lever for regulating production and product mix, and on the other hand often causes unfair social distribution. It is therefore necessary to reform the irrational price system and price control system, and change the static price level to a dynamic price level.

### 3. The Rise of the Commodity Price Level Is an Unavoidable Problem

They are a requirement for promoting development of a commodity economy, and naturally are also an unavoidable problem in the process of economic system reform. There should be sober understanding of this, and adequate psychological preparation. History has proven that putting undue emphasis on stable prices and artificially controlling the price level can only cause problems to accumulate, harming long-term interests in exchange for temporary stability. However, close attention must also be given to the various effects of the overrapid rise of commodity prices on economic development, people's livelihood, and economic system reform. Therefore, we will slowly resolve and channel the many factors of price level change, keep the degree of price level rise within a bearable range, and at the same time provide residents with due compensation, to ensure that their living standard will not drop as a result of a rise in the price level. We will carry forward reform of the distribution system, establish a normal capital increase system, raise wages and income as the economy grows, and increase the base income of retired staff and workers with no other source of income as commodity prices change.

13387

## PROVINCIAL

### Governor Comments on Gansu's Economic Outlook

40060418 Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese  
No 22, 6 Jun 88 pp 30-31

[Article by Zhao Duan 6392 4551: "How Can Gansu, Which Is Both Poor and Rich, Rise Up?—An Interview With Jia Zhijie, Governor of Gansu Province"]

[Text] Jia Zhijie [6328 1807 2638], governor of Gansu Province, is a middle-aged man. He appears amiable, frank, and without "bureaucratic airs." Most high-ranking Chinese government officials are old people, veteran revolutionaries who have been in office for many years. Jia looks still young, though he says he is 52 and "not young." To be the head of a province at his age may be nothing in the West, but it's no simple matter on mainland China. This may give some idea about the sweeping reforms going on in China.

"Reform" was also the subject for the interview. China is looking for a way out through in-depth reforms. What does this mean to Gansu in the great northwest? Governor Jia Zhijie's answer was simple: "Our need for reforms is even more pressing. The province must get out of poverty through reforms."

Gansu had a glorious past and enjoyed a period of great prosperity during the Tang Dynasty. It was an important passageway of the silk road between Europe and Asia. The dance drama "Tales of the Silk Road," which has captivated audiences at home and abroad, is based on a touching story that took place in this area during its heyday amid the friendly exchanges and trade with foreign countries. However, owing to the growth of international ocean shipping, chaos caused by endless wars at home, destruction by man, and natural disasters, China's great northwest has been gradually neglected and impoverished since the end of the Ming and the beginning of the Qing dynasties. In the late 1940's, there was virtually no industry in Gansu Province, except a woolen mill established by Zuo Zongtang, a saber plant opened by Ma Bufang, and the Yumen oilfield left over from old China.

Hailing from Fuyu County, Jilin Province, Governor Jia came to the great northwest in the 1960's. In 1954, he graduated from the affiliated middle school of the Northeast Normal University in Changchun and passed an examination for further education in the Soviet Union. He studied the Russian language for 1 year at the Beijing Foreign Language Institute and then went to the Soviet Union, where he studied for 5 years, majoring in petroleum machineries. In 1960, he graduated and returned to China to work in the Lanzhou Petrochemical Equipment Plant. Here he worked successively as a technician on probation, technician, technical section chief, engineer, branch plant director, deputy chief engineer, assistant plant manager for technology, and plant manager. He is a petroleum machinery expert with specialized knowledge and much practical experience. In 1983, he was transferred from the plant to the Gansu Provincial CPC Committee, where he was put in charge of economic work for 3 years. In 1985, when former governor Chen Guangyi [7115 0342 3015] was transferred to be governor of Fujian, Jia became the new governor of Gansu. Apparently he has done a good job as governor, for at the end of his term this year, the scholar was elected governor again. After more than 20 years in the great northwest, he knows the region's economic development like the palm of his hand. Here is the governor's introduction of Gansu Province, which is both poor and rich, and how his administration plans to cure the province of poverty.

Jia Zhijie said that Gansu's development began in the 1950's. The earliest were 14 Soviet aid construction projects. Next, a number of defense industrial enterprises were established in the province. Later, a number of enterprises moved to Gansu during the period when China moved industrial installations to the third-line

regions. There are also enterprises set up by the prefectures and counties over the past 20 years and more. These are the four parts of the industrial system in Gansu today. It is dominated by heavy industry, which make up 75 percent of the industrial system, and light industry accounts for 25 percent. Heavy industry consists mainly of raw and semifinished materials industries and energy-consuming industries.

It should be pointed out that conditions in Gansu are very favorable for development. First of all, there is plenty of energy. The Huanghe flows through Gansu with shoals, gorges, drops, and rapids, giving the province abundant hydroelectric resources. Major hydroelectric power stations include the Liujiashia, Yanguoxia, and Bapanxia stations on the upper reaches of the Huanghe and the Bikou station on the Bailongjiang. There are also thermal power stations including the Xigu, which is fairly large, Liancheng, Gangu, and Yongchang power stations. These power stations have a total installed capacity of 3 million kilowatts, of which 2 million kilowatts are hydroelectric. Thus a predominantly hydroelectric power supply system has been formed. In 1987, the province generated more than 13 billion kilowatt-hours of electricity. In addition, Gansu also has coal and petroleum. These are all favorable conditions for the exploitation of natural resources and industrial development.

Gansu is a vast province of varied climates and abundant ground resources. It produces a lot of animal fiber, plant fiber, agricultural and sideline products, and special local products. Jia Zhijie used take the wool spinning industry as an example. Not only is there plenty of sheep's wool, but special wools and fibers such as rabbit hair, goat's wool, camel's hair, and yak's hair are also plentiful. As to plant fiber, Gansu also produces cotton. There is great potential in flax production. Flax yields twice as much fiber as wool. Flax fiber is also of fine quality, and prospects are good for development. If things go well, Gansu may become China's second largest flax production base after Heilongjiang. Among special products, Gansu's medicinal herb production is China's second largest. "Wen dang" [4773 8093] and "min gui" [1488 2981] are Gansu's special products renowned at home and abroad since ancient times.

The governor said that Gansu's greater wealth is underground. There are all kinds of mineral resources. Of 66 proven mineral deposits, 23 are the 5th largest and 10 the largest in China. The nickel mine in Jinchuan, Gansu, is the world's second largest, after Canada, and the ore is of a rarely high grade. It is a paragenetic deposit. Besides nickel, there are associated elements such as copper, cobalt, gold, silver, and precious metals of the platinum family including platinum, palladium, osmium, iridium, ruthenium, and rhodium. Now under the Jinchuan Nonferrous Metals Co, the mine is currently producing more than 20,000 tons of nickel, more than 10,000 tons of copper, and 180,000 tons of sulphuric acid. The lead and zinc mine in Longnan has proven

reserves of more than 10 million tons, and its prospective reserves may be the largest in China. An ore dressing plant has been completed this year, and the mine is expected eventually to become China's largest lead and zinc mine. There is a golden triangle on the common borders of Gansu, Sichuan, and Shaanxi provinces. Gannan and Longnan are in this triangle, producing considerable quantities of gold, silver, platinum, and other precious metals. Gansu also has deposits of ferrous metals such as iron, chromium, and manganese; nonmetallic minerals such as quartz, limestone, and marble which are found everywhere; and rare-earth elements.

A fairly solid industrial foundation has been laid in the past decades. It includes a predominantly hydroelectric power industry; a petrochemical industry consisting mainly of the Lanzhou petrochemical plant, the Lanzhou oil refinery, the Changqing oil field, and the Yumen oil field; a nonferrous metal industry consisting mainly of the Jinchuan and Baiyin companies; a ferrous metals industry consisting mainly of the Jiuquan steel plant, the Lanzhou steel plant, the Northwest ferroalloy plant, and a carbon plant; a machine-building industry producing mainly petroleum equipment; a predominantly woolen textile industry; a building materials industry producing mainly cement and sheet glass; and a defense industry consisting mainly of large military plants. These industries will no doubt provide conditions for the exploitation and utilization of natural resources and continued economic development.

However, for continued development of Gansu, a number of problems must be solved, said Jia Zhijie. First, the agricultural problem, mainly in the arid central part of Gansu represented by Dingxi. The area has been known historically as the "poorest place under heaven." In July 1982, Premier Zhao Ziyang made a fact-finding tour of the "two-xi" area, that is, Dingxi and the Hexi Corridor. He suggested "curing the poverty of central Gansu by developing Hexi." The State Council then set up a special "three-xi" (including Xihai in Ningxia Hui Autonomous Region) development leading group and also decided to allocate 200 million yuan each year for 10 years to finance key construction projects. Work in the past 5 years has produced results. In the Dingxi area, much progress has been made in solving the problem of food and clothing, and Hexi is already on its way toward getting rich. Now, 70 percent of Gansu's marketable grain is from Hexi. Hexi has also become a melon, fruit, and vegetable production base in western China. Zhangye Prefecture alone sells more than 400 million jin of vegetables to more than 20 provinces and cities each year. A new pattern of "sending vegetables from the west to the east" has been formed. However, Gansu's agricultural problem as a whole has not been solved yet. Still 27.8 percent of the peasants do not have enough food and clothing. Therefore, the province has decided to devote 5 more years from now to solve this old, big, and difficult problem, 3 years to work on new projects and 2 years to complete unfinished jobs, and put an end to Gansu's long dependence on grain supplied by the state.

Second, it is imperative to tap Gansu's abundant natural resources in a big way to propel all-round economic development of the province. In fact, Gansu owes every success it has made so far to the exploitation of its natural resources. For example, Baiyin City, known as the copper city of Gansu, owes its existence to the discovery of a large copper mine and the establishment of the Baiyin Co here. The exploitation of the copper mine has stimulated the area's economic growth. The development of the nickel mine and emergence of the Jinchuan Co have given birth to the nickel city of Jinchang. The development of the Jiuquan steel plant is accompanied by the growth of the steel city of Jiayuguan. At present, the coastal regions' major difficulty is the lack of raw and semifinished materials, but Gansu has plenty. The coastal regions have plenty of funds, technology, and trained manpower, which Gansu does not have. Jia Zhijie said that the two can be mutually complementary, and much can be accomplished by developing lateral ties and east-west cooperation. What's more, it will help solve the supply and demand problem of the country as a whole. In the past few years, Gansu has brought in 710 million yuan of capital from the coastal regions for the exploitation of natural resources, and the money has financed a large number of construction projects and contributed to local industrial growth.

Third, it is necessary to speed up the readjustment of the production structure. Gansu's production structure is rather irrational. The major problem is imbalance. There is too much heavy industry and too little light industry. It is therefore necessary to speed up development of light industry, including food, beverage, and textile industries. Gansu's woolen textile industry is pretty well established with 70,000-80,000 spindles. There are eight woolen mills in Lanzhou alone, of which the No 1, No 2, and No 3 woolen mills are fairly modern. They produce a wide range of products, and some of the products are marketed abroad. The government calls on these kind of factories to give full play to their strong points and turn out better products to earn more foreign exchange through exports.

Governor Jia said that Gansu has changed a great deal in the past few years. From 1983 through 1987, the economy grew steadily at a markedly faster pace. In 1987, Gansu registered a gross social product of more than 30 billion yuan (in terms of 1987 prices). In terms of comparable prices, gross social product grew at an average annual rate of 13.5 percent during these 5 years, as compared with the 6.4 percent annual growth rate in the 30 years from 1953 through 1982. In 1987, Gansu's total industrial and agricultural output value rose to more than 18 billion yuan (in terms of 1980 constant prices), growing at an average annual rate of 10.3 percent between 1983 and 1987, as compared with the 6.8 percent annual growth rate in the previous 30 years. On opening to the outside world, our policy is to open our doors wide on all sides to other parts of China and the entire world. In 1987, Gansu had established economic and trade relations with more than 50 countries and

areas and earned \$120 million in foreign exchange through exports. From 1980 through 1987, contracts on more than 290 technological import projects, worth a total of \$330 million, were signed, most of which have been completed. Contracts were approved and being implemented on 36 construction projects involving the use of foreign funds totaling more than \$76 million, and 15 Sino-foreign joint ventures, with contracted investments totaling \$40 million, were established. In the past few years, Gansu has signed nine contracts with five countries for the installation of complete sets of equipment and technical cooperation under China's foreign aid program. More than 1,000 people have been sent to these countries, and more than \$30 million worth of construction work and labor services have been completed. In addition, Gansu has accepted 33 UN-sponsored multilateral and bilateral aid projects. The aid funds, nearly \$60 million given gratis, are used on agricultural, educational, and scientific and technological projects. Approval has been obtained for Gansu to accept a loan of \$180 million from the World Bank. The loan will be used for the development of agriculture, education, public health, township enterprises, and industries which will earn foreign exchange through exports. But, Gansu is still lagging far behind the other provinces and regions. Especially since the introduction of the national strategy to accelerate the economic development of the coastal regions, the question of how to speed up Gansu's development has become even more pressing. He said that in his opinion each region should strive for its own development in its own way. He called for hard work to develop Gansu as quickly as possible, taking full advantage of its strong points and avoiding its shortcomings.

12802

**Wen Shizhen's Government Report**  
SK2408052088 Shenyang LIAONING RIBAO  
in Chinese 9 Aug 88 p 2

[“Excerpts” of report by Vice Governor Wen Shizhen on implementing annual plan during first half and work arrangements for second half, at the fourth meeting of the seventh Liaoning Provincial People's Congress Standing Committee on 26 July]

[Text] Entrusted by the provincial People's Government, I would like to submit the following report on implementing the province's plan for the national economy and social development for examination and approval by the present meeting.

**1. Implementing Plan During the First Half**

Early in 1988, the first meeting of the seventh provincial People's Congress discussed and approved the “Liaoning provincial 1988 plan” for the national economy and social development. Over the past 6 months, the province's situation in implementing the plan has been good thanks to earnestly implementing the spirit of the 13th

CPC Congress and the strategy of developing the economy along coastal areas and upholding the principle of stabilizing the economy and deepening the drive to conduct reform.

A. The spring sowing operation was better than that of 1987 and various industries and trades in rural areas have achieved continuous development.

Governments at all levels attached great importance to agricultural production this year, formulated or improved policies and measures for promoting stable agricultural development, increased agricultural input, vigorously took advantage of moisture and measures to combat the drought to sow crops, and made full preparations for it. All of this brought about a spring sowing situation better than that of 1987. Forestry production continuously achieved development. In animal husbandry, production in all sectors showed somewhat of an increase except for the number of hogs raised, which showed a decrease over the corresponding period in 1987. At the end of June, the number of hogs raised was 9.207 million, a 3-percent decrease from the corresponding period in 1987. However, it surpassed the figure at the end of March by 945,000 head, bringing about a trend of again rising production. The output of beef, pork, and mutton was 336,000 tons, a 3.4-percent increase over the corresponding period in 1987. During the first half, town-run enterprises throughout the province realized 10.45 billion yuan in total industrial output value, a 40.2-percent increase over the corresponding period in 1987, maintaining a good trend in achieving a higher rate of steady development.

Among major problems that exist in agriculture were large scale price hikes in agricultural production and a decrease in the comparable effect of seed grains. All of this adversely affected the peasants' enthusiasm for farming. Areas where industrial sideline production, fish breeding, and poultry farming have achieved better development and where higher economic results have been scored experienced decreasing agricultural input. Some specific localities even had peasants who returned their contracted farmland to the authorities and gave up farm work. Therefore, the situation in grain production does not allow us to be optimistic.

B. The speed and results of industrial production showed a stable increase and the situation for implementing the communications and transportation plans was good.

During the first 6 months, the province's total industrial output value was 49.43 billion yuan, a 15.9-percent increase over the corresponding period in 1987. Industrial enterprises at or above the village level realized 41.78 billion yuan, an 11.9-percent increase over the corresponding period in 1987. Of this industrial output value, that of heavy industry was 28.45 billion yuan, a 12.3-percent increase over the corresponding period in 1987, and that of light industry, 13.34 billion yuan, a

10.8-percent increase over the corresponding period in 1987. The characteristics of industrial production during the first half were that the output growth was stable each month, the scale of the output increase among raw material industries was larger, economic results increased somewhat, and the situation in implementing plans for communications, transportation, and post and telecommunications was good, fulfilling the first half plans on schedule.

The prominent problem in industrial production was the slow development of light and textile industries and their insufficient reserve strength. During the first half, light industrial output showed a 4.8-percent increase and that of textile industry, a 5.7-percent increase—both lower than half of the corresponding provincial figure. Meanwhile, light industrial production in four cities showed a decrease from the corresponding period in 1987. All of this apparently reflects that the technology, equipment, and expertise of light industrial enterprises throughout the province are more backward than those of other provinces, their product quality is not high, their famous trademark and fine quality products are few, and their products lack competitive capability. The shortage of raw materials was also a prominent problem. Although materials and products in short supply are few, they have a vital bearing on the national economy and the people's livelihood. In addition, contradictions, such as power shortage, the one-sided shortage of funds, the foreign exchange shortage, and the strained situation in communications and transportation still hinder the rapid development of industrial production and the national economy as a whole.

C. The progress of capital construction and technical renovations was accelerated and investment effects achieved a turn for the better.

Since the beginning of 1988, the province has continuously implemented the principle of "three protections and three curtails." During the first half, 1,284 capital construction projects designed for state-run units across the province were put under construction, a 61-project increase over the corresponding period in 1987. The province invested 3.06 billion yuan in this regard, a 36.3-percent increase over the corresponding period in 1987. In technical renovations, the province invested 2.17 billion yuan in projects of the state-run units, a 13.7-percent increase over the corresponding period in 1987.

The construction of the provincial sports center where the second national junior games will be held next year is currently under way; it will be put into operation by the end of June next year. The provincial color television tower, for which equipment is strenuously being installed, will basically be completed by the end of this year. The provincial museum will be totally completed within this year. The main body of the ward building and

audio-visual education center of the provincial traditional Chinese medical institute is being constructed, and efforts will be made to basically complete it within this year.

Despite encouraging policy measures, the progress of housing construction remained slow. The major reason for this was the large-scale increase of per-unit construction cost, which has led to a shortage of funds and investment.

**D. Import and export trade was continuously expanded and substantial progress was achieved in foreign capital utilization.**

Our province's foreign economic relations and trade were increasingly invigorated and expanded in the process of reform and opening up. The provincial party committee made a decision on accelerating development of the export-oriented economy of the Liaodong peninsula earlier this year, and held a work conference on opening the Liaodong peninsula to the outside world more quickly in February. In March, after the central authorities approved designation of 8 cities and 16 counties in the Liaodong peninsula as an open economic zone, the provincial government, as well as some city and county governments, again decided one after another on establishing special zones or special plants, hence a multi-layered and multifomed new pattern for our province's opening to the outside world. This effectively facilitated our province's foreign trade development. From January to June, exports through Dalian Port showed a 12.7-percent growth over the corresponding period last year. Among the commodities exported through Dalian Port, those from the provincial sources (excluding refined oil) showed a 34.6-percent increase over the corresponding period last year. Foreign capital utilization of the province increased rapidly. The semiannual amount of foreign exchange earned from sources other than trade grew substantially, and the province hosted 52,000 tourists of various categories, rising by 13.9 and 100 percent, respectively, over the corresponding period last year.

**E. Urban and rural markets were thriving and commodities of various categories enjoyed brisk sales.**

Urban and rural markets throughout the province have thrived even more since the beginning of this year thanks to efforts to increase the economy while maintaining its stability, to invigorate finances while tightening them up, to develop production, to enliven circulation, and to improve supply. From January to June, the retail sales of the province rose by 20.7 percent over the corresponding period last year. Of the total, consumer goods purchased by residents rose by 20.3 percent and those purchased by social groups by 21.5 percent. The current major problem is market instability. Specific manifestations are, initially, the conspicuous contradiction between market supply demand and, next, the high price index and large-scale price increase. From January to June, the

retail price index rose by 11.5 percent. The number of people who experienced a decline in their standard of living increased. They included mainly households with difficulties whose per-capita income was rather low, staff members and workers of money-losing enterprises, teachers of primary and middle schools, medical personnel, and some retired cadres and office cadres.

**F. Revenues increased and monetary conditions were fairly good.**

With stable growth in production and improvement in economic results, the local revenues of the province totaled 5 billion yuan from January to June, a 5.5-percent increase over the corresponding period last year, and its expenditure totaled 3.5 billion yuan, a 14.9-percent increase.

Major problems in the semiannual revenues and expenditures were the increases in the deficits of industrial enterprises and the comparable production cost, which led to an 8.4-percent decrease in the income of enterprises; the large amount of deficits of grain enterprises; and the overspending of administrative funds, which showed a 16-percent growth over the corresponding period last year.

**G. New progress was made in education, science and technology, culture, public health, and sports.**

After increasing their planned enrollment by 12 percent last year, ordinary full-time schools of higher learning throughout the province again increased their planned enrollment by 8.9 percent this year, more than 100 percent greater than the national average growth. Reform of the educational system of secondary specialized schools was by and large completed. Education funds showed a substantial growth over last year. From January to June, education funds totaled 450 million yuan, 9.9 percent more than the corresponding period last year. However, the major problem in education remained the shortage of funds, in particular funds to primary and middle schools. Scientific and technological plans progressed rapidly. From January to June, 67 scientific and technological research projects were completed, 7 projects more than the corresponding period last year.

**H. Reform in various fields was further deepened, thus effectively promoting economic development.**

This year, the economic structural reform should be continuously focused on popularizing the contracted managerial responsibility system. Of the large and medium-sized industrial enterprises covered by the provincial budget, 92 percent introduced the contracted managerial responsibility system. Leasing was popularized among medium-sized and small enterprises. About 25.5 percent of state-owned enterprises at or above the county and district levels instituted leasing. In those cities and counties where leasing developed rapidly, more than 70

percent of state-owned enterprises implemented leasing. Meanwhile, new progress was achieved in introducing competition into the contract system. About 31.5 percent of enterprises in the province acquired managers through open bidding and public recruitment. Lateral economic associations among enterprises developed toward orientation of open, network-style, and multi-layer groups with cities as their centers. The market system developed further. Large-scale material trading centers were built in all of the province's 13 cities and material exchange markets were established in 34 small cities, counties, and towns.

In planning structural reform, we simplified procedures for examining and approving items with regard to opening Liaodong peninsula to the outside world, and granted more examination and approval powers to cities, counties, and enterprises. In the city of Haicheng, Liaoyuan County, and Qingyuan County, we carried out experiments for managing guidance planning at the county level, thus providing practical experience for further popularizing planning structural reform in the future.

## 2. The Economic Situation and Major Tasks of the Second Half of this Year

Presently, the unfavorable factors that hamper development of the province's share of the national economy are still four difficulties pointed out by the 1988 provincial planning conference—the shortage of energy resources and raw materials, the shortage of foreign exchange, the shortage of funds, and the imbalance between revenues and expenditures. However, there are also many favorable conditions. For instance, at present the mass climate of reform is better than during any other period in the past, various localities are full of energy in developing the export-oriented economy, the domestic market is brisk and the international market still promising, and the various policies that concern reform and opening-up formulated by the provincial party committee and the provincial government are playing an increasingly greater role and creating a good environment for sound development of the economy. An initial forecast shows that the annual industrial and agricultural output value will exceed the annual target of 107 billion yuan, and reach 110 billion yuan, of which the total industrial output value will surpass 100 billion yuan and the total agricultural output value will surpass 10 billion yuan. We should strive to fulfill the targets of export and foreign exchange revenues. Provincial financial revenues are projected at 11.184 billion yuan, an increase of 384 million yuan or 3.6 percent over the past year. To successfully solve the major problems that relate to the province's economic development and to ensure comprehensive fulfillment of this year's plan for economic and social development, we should pay attention to the following tasks during the second half of this year:

### A. We should further emancipate our minds, renew our concepts, and deepen reform.

During the second half of this year, we should thoroughly implement the provincial party committee's "Opinions on Conducting Study and Discussion of the Standards for Productive Forces and on Further Emancipating the Mind," profoundly observe the guidelines of the meeting discussing the principles of the standards for productive forces held by provincial-level organs, make great efforts toward changing our concepts, and regard facilitating expansion of productive forces as the point of departure in our consideration of all problems and as the basic criterion for judging all our work. At the same time, we should earnestly study the strong points of fraternal provinces and municipalities, that is, learn from the successful experiences of Jiangsu and other provinces in developing town and township enterprises, learn from the experiences of Shanghai Municipality and other provinces in further enlivening large and medium-sized enterprises, and learn from the experiences of Guangdong and other provinces in vigorously developing the export-oriented economy. We should persist in the comprehensive reforms of enterprise, market, and macroeconomic management systems and give full play to the overall efficiency of reform to promote the development of the province's planned economy.

The reform has now entered a critical period and we are confronted with many problems that are difficult to solve. For instance, the people often complain about the sharp rise in the price index, the unfairness in social distribution, and the unhealthy party style and social atmosphere. We should profoundly analyze the essence and causes of these problems and map out ways to solve them so that we can lead the large number of masses to overcome difficulties and march forward in victory with one heart and one mind.

### B. We should accelerate the pace of opening Liaodong peninsula to the outside world.

Last March, the State Council formally approved defining Liaodong peninsula's 8 cities and 16 counties as a coastal economic open area. This area is the essence of our province's national economy. Thus, accelerating the pace of opening Liaodong peninsula to the outside world is a great matter that all people of the province have looked forward to for a long time as well as a strategic work of the governments at various levels and the departments in charge of economic work. Based on the work done in the preceding period, the province should carefully organize forces to promote the development of export-oriented economy, and strive to make greater progress.

We should conscientiously work out a plan to develop export-oriented economy. According to the guidelines of the sixth (enlarged) plenary session of the sixth provincial party committee, we should extensively mobilize all cities and all provincial-level departments to further revise and perfect the outlines of the export-oriented economic development plan; to define the guiding ideology, the pattern for opening to the outside world,

fighting goals, development priorities, and specific policy measures; and strive to form a comparatively integrated planning system to promote the work in all fields. We should attend to technological transformation and the construction of key capital construction projects to ceaselessly improve the investment climate. We should inspire the enthusiasm of the people on all fronts and strive to expand the ability to create foreign exchange through exports. It is necessary to expand the scale of creating foreign exchange through exports and to increase foreign exchange revenues to promote the current production and develop the export-oriented economy. Efforts should be made to make new breakthroughs in using foreign capital and developing "three-capital" enterprises. The Dalian economic development zone, the Yingkou Bayuquan export processing zone, and the Shenyang Tiexi industrial zone should make greater strides to open themselves to the outside world to set a good example for further opening Liaodong peninsula to the outside world.

**C. We should strive to upgrade economic results and promote the sustained, steady, and coordinated development of industrial and agricultural production.**

With the focus on reaping a bumper grain harvest this year, the province should strive to achieve the work in all fields. At present, the crop growing situation is very good. The province is expected to reap a good harvest if there are no serious natural disasters this summer and autumn. It is necessary to continuously implement the policy on linking the contracted purchases of grain with the supply of fertilizer, diesel oil, and purchase deposits. At present, we should pay special attention to organizing the production and supply of agricultural production means, such as farm chemicals; fully prepare for fighting floods and draining away floodwater, guard against summer drought and autumn dry weather that will possibly emerge; prevent plant disease and insect pests in a timely manner; achieve forecasts of disastrous weather; and strive to reduce to the minimum losses due to various kinds of disasters.

In the next half of 1988, the industrial front should basically maintain its production growth speed during the first half of this year; organize and coordinate the work in the supply, energy resources, and transportation fields; ceaselessly deepen the campaign of increasing production, practicing economy, increasing revenues, and reducing expenditures; and guide enterprises to increase their economic results.

**D. We should urban and rural markets well and ensure a brisk market and a relevant stability of goods prices.**

In the next half of this year, the general trend of the province's urban and rural markets are further brisk and flourishing. However, contradictions between the supply and demand of some commodities are very prominent. It is possible that the goods prices index will rise. We must adopt overall coordinated measures to ensure the

province's market stability. Efforts should be made to stabilize grain and edible oil markets and the markets for foodstuffs, dominantly meat and vegetable markets. We should try every possible means to increase the resources of daily industrial goods and to improve market supply. According to the central authorities' plan, in the next half of this year, we should concentratively decontrol and readjust the prices of cigarettes and wine, emphasize goods price work to strengthen the management of goods prices, maintain the relevant stability of market prices, and greatly strive to reduce the blast wave caused by price hikes.

The main measures are: First, we should strictly forbid unauthorized price rises and strictly control the appearance of some adjusted price items. Second, we must persist in managing prices in line with the law and strengthen supervision and inspection. Units and individuals who violate price stipulations must be strictly dealt with according to law, particularly the acts of selling inferior and fake products to cheat the consumers. Third, we should check price rises of agricultural capital goods; do a good job in supplying vegetables, meat, and other nonstaple foods; successfully organize the production of daily consumer goods; increase supply; and stabilize market and commodity prices.

**E. We should successfully implement the new system of assuming responsibility for increasing revenue at a progressive rate and strive to realize a basic balance between revenues and expenditure.**

After arguing several times with the central authorities, the state has already decided to implement in our province the method of assuming responsibility for increasing revenues at a progressive rate, which will remain unchanged for 3 years. This year there are many policy-related factors for increasing expenditures and reducing revenues. Our task to achieve a balance between revenues and expenditures remains arduous.

During the second half of this year, we must first improve the province's contract methods for cities, open up new financial resources, and increase financial revenues. Second, the provincial, city, and county governments at all levels, under the situation in which we have developed industrial and agricultural production, raised economic results, and increased financial revenues, should increase investment in agriculture and education and allocations of working funds. Third, we should persist in deepening enterprise reform and strengthen enterprise management. Fourth, we should firmly grasp the work of ending deficits and increasing profits, and minimize losses. Fifth, we should strictly control institutional group purchases and reduce nonproductive expenditure. Apart from guaranteeing the increase of some necessary expenditures on workers' wage and price subsidies, all other expenditures must be curtailed from last year's figures. It is necessary to conscientiously implement the guidelines of the State Council's emergency circular; realistically strengthen leadership; adopt

resolute measures; sort out projects of "office buildings, auditoriums, and hotels" under construction; and reduce investment in nonproductive capital construction projects, except infrastructure facilities in favor of opening up and residential houses. We should actively and successfully carry out the work of broadening financial sources and reducing expenditures and strive to achieve a basic balance between financial revenues and expenditures this year. During the second half of this year, we must continue to invigorate the money market, actively promote interlending loans, readjust the credit structure, tap the potential of funds, control the circulation of currency, strengthen sales of the commodity market, organize commodity supply well, strengthen savings deposits work, absorb idle funds from residents, and increase the withdrawal of currency from circulation through various channels to solve the funds shortage.

F. We should conscientiously grasp science, technology and educational undertakings.

During the second half of this year, we should continue to deepen the scientific and technological structural reform, solve the problems of dislocation in the scientific, technological and economic structures, relax control over scientific research organs, and give full play to the role of scientific research personnel. In educational undertakings, we should act in line with the demands to raise teaching quality and further develop all forms of cooperative school operation and training on a commission basis. In line with the needs of further opening Liaodong peninsula to the outside world, we should exert strenuous efforts to train personnel to carry out the multilayered export-oriented economic construction.

To realistically solve the shortage of educational funds for primary and middle schools, the provincial government has organized departments concerned to conduct investigations and study, and to formulate a "decision for solving the educational funds for primary and middle schools." The main guidelines of the decision are to educate cadres at all levels and the broad masses of people to firmly bear in mind that "education is the fundamental importance to the fulfillment of our great long-term mission," intensify the people's ideology of having all people run educational undertakings, further perfect the system of having local governments assume responsibility for elementary education and share the management to different levels, increase the educational funds allocation every year, and continue to rely on social efforts to collect school operational funds. All schools should deeply carry out work-study activities, operate school-run factories well, and increase incomes. We should conscientiously organize the people to implement the decision, improve the teaching conditions of primary and middle schools through all fields of endeavor, and do a better job in developing the 9-year compulsory education.

According to the spirit of the circular issued by the CPC Central Committee and the State Council on preventing the state apparatus from lying while performing official

duties and from engaging in business and operating enterprises, we should regard the work of fostering the morale of honesty in performing official duties as a routine task and put the work on our daily schedule. We should adopt effective measures to educate all cadres in organs and particularly leading cadres to serve the people by correctly using the power entrusted by the people. We should also educate them to maintain or develop the party's fine tradition, to realistically and strictly abide by the discipline, to refrain from taking bribes and bending the law, to perform their official duties impartially and satisfactorily, to refrain from seeking personal gain by taking advantage of power, to wage arduous struggle, and to refrain from indulging in extravagance and waste. We should urge every comrade in organs to be able to withstand the test cropping up in exercising power and in the drive to conduct reform and opening to the outside world and to consciously struggle against all acts violating the law and discipline. Organs, units, and individuals who have continuously joined in business and operated enterprises by violating in disguised form the relevant state regulations should be dealt with to find out who is to blame for the violation.

We should continuously develop the spirit of "waging arduous struggle and building up our country industriously," deeply carry out among the organs the campaign of increasing production and practicing economy as well as increasing revenue and reducing expenses, strictly bring the social institutional purchase power under control, and curtail all unnecessary administrative funds expenses. Efforts should be made to deal with cases of indulging in bureaucracy and violating the discipline and to foster a fine morale inside the organs with regard to being glorious in practicing economy and being shameful in causing losses and waste.

We should further improve the work style of people's governments and vigorously upgrade the organ's work efficiency. In line with the emphasis of upgrading work efficiency, efforts should be made to foster a new ideology, concept, and work style suitable to the drive to conduct reform and opening to the outside world, and to render better services for economic construction, for grassroots level enterprises, and for the people. We should enhance system building by emphasizing the establishment and improvement of the responsibility system to attain a fixed work target. In line with the demand to change functions, we should establish or improve work targets in various fields, and integrate the responsibility system to attain a fixed work target with the appraisal system of cadres, the democratic appraisal of leading cadres with the system of examining and appointing in employing leading cadres to bring into play the tremendous enthusiasm of cadres to wholeheartedly serve the people and contribute to the modernization undertakings and have them fulfill their official tasks with high efficiency and at a high speed.

We should gradually establish the open system of running an office and the system of holding consultation and dialogue with various social circles and vigorously

upgrade the work transparency of organs so as to enable major and big events to be known by the people and major and big issues to be discussed by them. Efforts should be made to further and actively accept the legal supervision of the People's Congress and its standing committee; to invite the deputies of the People's Congress to give criticism to the government work; to listen to the opinions and suggestions of the CPPCC Committee; to do a good job in dealing with the motions raised by the members of the CPPCC Committee; and to listen to the opinions and suggestions raised by various democratic parties, democratic personages, and mass organizations; and to actively accept democratic supervision.

To promote the self-improvement of organs, governmental organs throughout the province should continuously and deeply carry out the emulation drive of "public servant trophy" on the fundamental purpose of wholeheartedly serving the people. On the basis of carrying out inspection and summarization during the first half, they should further enhance their daily supervisory and inspection work.

Our province's tasks in various fields in the latter half of this year will be very heavy and arduous. We should carry forward the spirit of "being honest in performing official duties, doing practical deeds, scoring high efficiency, and creating something new" to unwaveringly implement the party's basic line in the initial stage of socialism, to uphold the criterion of productive forces, to let reform play a dominated role in our overall work, to ensure the fulfillment of planned targets this year, and to celebrate the 40th anniversary of our province's liberation with our outstanding deeds.

## SMALL-SCALE ENTERPRISES

### Outline of Development of Township Enterprises in Shanghai

40060420 Shanghai SHANGHAI JINGJI /SHANGHAI ECONOMY/ in Chinese No 3, 30 May 88 pp 12-14

[Article by Ming Zhicheng 2494 1807 3397, vice chairman of the Shanghai Economic Commission: "Proceed From the Strategy of Integrating City and Countryside and Vigorously Support the Development of Suburban Township Enterprises"]

[Text]

### The Advances Achieved in Township Industry in the Suburbs of Shanghai

In the 9 years since the 3d Plenum of the 11th Central Committee, township industry in suburban Shanghai has made major breakthroughs in its development, and its status and role in the industrial development of the entire municipality is steadily growing in importance.

### I. Township Industry Has Become a Crack Force in the Main Army of Shanghai's Industry

Shanghai's township industry has grown swiftly and vigorously over the last 9 years, and in 1987 township and village gross industrial output value reached 12.48 billion yuan, an increase of nearly six-fold over the 1.83 billion yuan posted in 1978. The township share in the municipality's total industrial output value rose from 3.3 percent in 1978 to 13.8 percent in 1987 (when state and collective enterprises run at the county level are included, suburban rural industrial output value totaled 16.038 billion yuan in 1987, or 16.4 percent of the municipality's total).

Over the past several years, the growth rates for the industry of the entire municipality and for towns and townships were at a ratio of 1:4, which means that when industry grew by one percent for the municipality as a whole, township industry climbed by 4 percent. Shanghai's township industry has achieved a sustained growth averaging 24 percent a year and thus has enabled the municipality's industry to maintain a positive growth rate, even though urban industrial growth has slowed.

Shanghai's township industry has adhered to the policy of serving urban industry, foreign trade and exports, agricultural production and the livelihoods of urban and rural residents. In terms of product output value, township industry now supplies 65 percent of the parts and materials used in urban industry and produces 15 percent of total exports. More than 600 township enterprises now produce for export and, according to statistics compiled by the Shanghai Commission of Foreign Economic Relations and Trade, in 1987 goods directly delivered from suburban counties for export procurement totaled 1.172 billion yuan, an increase of 20.98 percent over 1986. Export procurement from big industry, on the other hand, did reach 9.011 billion yuan in 1987, but the increase over the previous year was only 7.29 percent, a much lower rate than that posted by suburban counties.

### II. Township Industry Boasts Impressive Economies of Scale

Statistics for 1986 show that Shanghai has 9,570 township enterprises, which employ 1.24 million people, possess 4.414 billion yuan (with a net worth of 3.373 billion yuan) in fixed capital, occupy a total area of 50.953 billion sq m (with a building space of 19.116 million sq m), show a total profit of 1.613 billion yuan, pay a total of 1 billion yuan in product and income taxes and thus comprise a considerable share of the entire municipality's economy.

Shanghai's township industry is well filled out sectorally, claiming nearly all the sectors represented in the entire municipality, except electric power, tobacco and the like.

Township industry produces 16 percent of the municipality's total machinery output, 13.6 percent of its textiles, 13.4 percent of its metal products, 8.2 percent of its electrical machinery and equipment, 7.6 percent of its tailoring, 5.9 percent of its chemicals and 4.6 percent of its plastic products.

Actually, township industry in the suburbs closest to the city—i.e., the four counties of Jiading, Shanghai, Baoshan and Chuansha—are more advanced, which fact is a strong indication that township industry in Shanghai has an urban-suburban nature. Township industry in the more distant suburbs—the four counties of Songjiang, Jinshan, Qingpu and Nanhui—were late getting started but have grown rapidly over the last several years. Township industry in Fengxian County is clearly unique and is devoted primarily to production for local markets, allows the market to regulate production and arose out of the production of machinery for light industry and foodstuff processing, which key sectors have promoted the development of other industries and achieved definite economies of scale. Township industry in Chongming County has developed rapidly in the last several years and has given birth to a number of enterprises that produce for export and focus on such goods as home appliances and wool sweaters. In 1987, 3—Jiading, Chuansha and Nanhui—of the municipality's 10 suburban counties posted township industry output values of more than 1.5 billion yuan, 6—Shanghai, Fengxian, Chongming, Baoshan, Qingpu and Songjiang—registered a total of 1.0-1.5 billion yuan, and Jinshan totaled 901 million yuan.

### **III. The Integration of Urban and Rural Industry Is Now Primarily Characterized by Joint Operations Between Industry and Agriculture**

At the beginning, as part of the policy of having industry support agriculture, Shanghai's urban industry delegated production of a number of simple products to villages in suburban areas and expanded cooperative processing of parts. But economic ties between urban and rural industry remained limited and rather loose. After the 3d Plenum of the 11th Central Committee, however, as urban industry began to grow and factories began to run out of space, many urban industrial sectors and companies began to set up production bases in suburban villages, to which they shifted production of goods and major parts and components, so as to free up their capacities for production of famous, quality goods and for development of a new generation of products. Thus economic ties between urban and rural industry, which used to be based primarily on external cooperation, entered a new stage involving product division of labor and specialized cooperation.

In the last several years, joint operations between township industry and agriculture have grown rapidly and become an important, inseparable component of the entire municipality's industry. Statistics show that in 1987 joint industry-agriculture enterprises numbered

more than 1,000, had a total annual output value of more than 4 billion yuan, and accounted for one-third of the total output value of Shanghai's suburban township industry. Joint industrial-agricultural enterprises are joint equity ventures between industry and agriculture, integrate city and countryside, make it possible for one unit to incorporate part of a second and for the second to incorporate part of the first, share profits and risk, have forged close ties between urban and rural industry and have promoted coordinated development of urban and rural productive forces.

#### **The Primary Tasks Involved in Assisting the Development of Township Industry in the Suburbs of Shanghai**

The Shanghai CPC Committee and government recently set an important strategic objective for the municipality's economic development—Shanghai must strive for 5 years basically to create a new situation in its externally oriented economy by 1992—and declared that to accelerate technological transformation, the municipality's industry must increase inputs and rapidly develop productive forces, for these things are essential to the development of externally oriented economy, and that, to achieve these desiderata, Shanghai's industry must seize this opportunity to make a strategic shift from an economy that is primarily internally oriented to one that is mainly externally oriented. And important elements of this shift, the municipal CPC committee and government continued, are a vigorous effort to promote integration of the urban and rural economies; a tight linkage of the city's advantage in having strong scientific and technological forces with suburbs' advantage in having room to develop; combining the features of township enterprises, which have flexible management systems and can change over to new production rapidly, with those of big industry, which has greater management and technological strengths and produces more famous, quality goods; and enabling the city and the countryside to fully use and develop their advantages so as to promote further advance in urban industry and to enable rural industry to enter a new stage of development.

In accordance with this guiding ideology, the Shanghai Economic Commission and municipal industrial bureaus decided that assisting the development of township industry should be stressed as an important task in our economic work and that that industry should be included in overall planning as an important component of the municipality's entire industry. Given the existing economic administrative system, at this initial stage we plan to incorporate the following major elements.

#### **I. Offering Assistance and Guidance to Township Enterprises in Their Efforts To Do a Better Job of Planning Their Development and To Effect Readjustment of Their Product Mixes**

Generally speaking, township industry in suburban Shanghai should focus on the strategic plan of integrating city and countryside and initiate specialized, socialized

cooperative production. Industrial bureaus must, on the basis of the developmental directions set forth in their plans and of actual conditions in each county, work with the Agricultural Machinery Bureau to provide assistance and guidance to township industry in the latter's effort to plan its development and readjust its product mix. And the Agricultural Machinery Bureau must work with each county, focus on drawing up plans for the development of externally oriented economies, initiate or bring in more Chinese-foreign joint or cooperative ventures or more wholly owned foreign companies, vigorously develop compensation trade and various types of export processing using imported materials in suburban counties, and establish foreign-trade, industrial and agricultural export-base enterprises. In the area of planning, the Shanghai Economic Commission must aggressively coordinate the efforts of the various sectors and counties.

The foci of the effort to integrate urban and suburban industry in the near future are as follows.

1. We must establish production bases in suburban areas to process locally produced agricultural and sideline goods so as to reduce spoilage and loss thereof during transport, to improve the quality of manufactured goods and to raise overall economic results. For example, we should gradually create several production bases for the foodstuff industry, expand canning of fruits and vegetables like mushrooms, tomatoes and broad beans, develop flour products and beverages, and so on.
2. In order to expand export foreign-exchange earnings, we must vigorously increase export of labor-intensive goods and goods produced through combined labor-intensive and technology-intensive operations and help the garment, silk, arts and crafts, daily necessity and household appliance industries produce more famous products, increase the variety of this product design and color and to move their products up scale. Since the early part of this year, big industry has begun to move production of some of its famous products to suburban counties.
3. While continuing to move production of more machine and electric goods to township enterprises, we must focus on importing and assimilating advanced technology and on increasing the Chinese content rate and expand specialized cooperative production of machine parts and semimanufactures.
4. To strengthen agriculture, the foundation of the national economy, we must aggressively develop new farm machinery and implements that meet the needs of agricultural production in suburban areas of the municipality (including equipment to be used in mechanized chicken, pig and dairy cow raising).
5. We must confront the problems of shortage of raw materials and of space in urban areas and appropri-

ately develop production of raw materials and semimanufactures that are in short supply in the metallurgical and chemical industries, such as galvanized sheet metal, hot-rolled silicon steel and the like.

## **II. We Must Employ a Variety of Methods To Improve Production Technology and Management in Township Industrial Enterprises**

We must link urban and rural industry and incorporate the technological transformation of township industrial enterprises into the technological transformation plans for the industry of the entire municipality. Normal township industry technological transformation projects will still be managed through the existing system, but those involving production of marketable products, especially famous, special, high quality goods, on a fairly large scale must be subject to unified planning. And projects involving import of equipment and technology will be accorded the same right as state enterprises to apply for reductions in or exemptions from import duties, as well as other preferential concessions.

Township enterprise product quality must be incorporated into the quality control system of the entire municipality, and standards and quality inspection departments must actively help these enterprises establish or improve their own quality-control systems, encourage and promote the use by these enterprises of national and international standards, and treat these industries and enterprises the same as state enterprises in appraising industry and product quality.

Development of new, key products by township enterprises should be incorporated into research and development planning for the industry of the entire municipality, and these enterprises should be accorded the same right as state enterprises to apply for reductions in or exemptions from product taxes, for research and development loans or for other preferential concessions.

Urban industrial enterprises should assign experienced technicians and managers needed by township enterprises; provide consulting to these enterprises in such areas as production technology, company management and operational decision-making; and respond positively to these enterprises' requests to send cadres and workers to receive on-the-job training. Business, professional and other schools should train management personnel for township enterprises in a planned way. And these enterprises should be allowed to recruit college graduates in industrial engineering and specialized managers to assist the enterprises in their work.

## **III. Encourage Urban Industrial Enterprises To Develop a Variety of Lateral Economic Ties With Township Enterprises**

Urban and rural enterprises may, in accordance with the principle of voluntary participation and mutual benefit and with the needs of development plans, choose from a

variety of forms in which to effect joint operations, for example, having big firms tow little ones, engaging in cooperative processing of parts and semimanufactures, manufacturing brand name goods, technical consulting services, transfers of technology, establishing joint equity ventures, and the like. And township enterprises may, as needed for economic development, join conglomerates led by key urban enterprises or relevant municipal industrial trade federations.

These three areas are the primary tasks we have thus far proposed for the work of supporting the development of township industry. To carry these tasks out, we must first unify and improve our understanding of the issue. Late last year, we convened a conference of responsible representatives of all of Shanghai's industrial bureaus, at which we focused discussion on how to strengthen lateral economic ties between urban and rural industry in our city, asked each bureau to heighten its awareness of suburban industry and to realize the importance of the role that vigorous development of township industry plays in promoting the growth of Shanghai's externally oriented economy. Second, we must set key tasks and carry them out to their conclusion. At present, each bureau has a number of projects that may be developed. According to incomplete statistics, 49 joint-operation expansion projects are at the initial stage of development by the various industrial bureaus under the Economic Commission. We request that each bureau stress implementation of these projects, send specialists to ensure they are carried out, that several goals are accomplished each year and that success is registered year after year. Third, we must improve policy and strengthen coordination. To advance integration of urban and rural industry, relevant municipal departments recently came up with a number of policy proposals, for example, extending tax holidays for new joint ventures so to accelerate loan repayment, granting externally oriented township enterprises more tax concessions, increasing the circulating funds of these enterprises, further decentralizing authority and granting counties and enterprises more autonomy, and establishing a system of urban-rural coordination conferences in which relevant departments participate.

We believe that Shanghai enjoys an excellent basis and many advantages with which to further develop its suburban township industry. Under the leadership of the municipal CPC committee and government and so long as all quarters work together and do solid, down-to-earth work, Shanghai's township industry will surely don a new face, enter a new phase and make new contributions to the effort of the municipality's industry to enter international markets and achieve sustained, stable growth.

## FOREIGN TRADE, INVESTMENT

### Organizational Restructuring of Country's Foreign Trade Companies

40060436a *Beijing GUOJI MAOYI WENTI*  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 6, 30 Jun 88 pp 2-8

[Article by Gu Xinhua 7357 2450 5478, Zhou Maoqing 0719 5399 3237, and Wang Kuanglin 3769 0562 2651: "Exploring the Organizational Restructuring of China's Foreign Trade Enterprises"]

[Text]

### I

In recent years, China has undertaken a series of reforms and experiments in connection with such issues as "separation of government administration and enterprises management, simplification of government administration and delegation of authority, instituting agency arrangements, and linkage of trade, industry, agriculture, and technology. Certain results have been achieved, but many questions remain unsolved, such as: (1) Continued disjunction between production and marketing. Authority for the management of foreign trade has been simplified and delegated only in the realm of the superstructure; it has not been possible to truly accomplish the "four linkages and two acts of making public." It is a frequent phenomenon to have each of the parties involved pursue its own objectives, compete with each other in exports, and scramble for markets. (2) Fierce competition among the enterprises themselves. After authority for the conduct of foreign trade had been delegated and expanded, every port, department, and enterprise with authority to conduct foreign trade has engaged in buying up export commodities at high prices, and in marketing them through export deals at low prices, even at times importing commodities in short supply at high prices in order to resell them at a profit. It was not only not possible to take a united stand against foreign parties, thereby allowing profits to flow into other people's pockets, but huge losses, politically and in damaged reputation, were at times suffered by China, and many export markets were lost through confusion in marketing channels and the "counter-dumping" by other governments. (3) Incurring large financial losses. Because responsibility for profit and losses was not simultaneously delegated together with the authority to engage in foreign trade, the "large pot," from which everybody helped himself, was not reduced but further enlarged. The situation became one in which enterprises "fed" from export trade, while export trade "fed" from the treasury. In addition there was competition among the enterprises themselves, which led to increased export costs and increased losses from foreign trade, while economic returns went down.

To radically eliminate all these long-standing abuses in the old foreign trade system, and also to overcome the

various above-mentioned new problems encountered in the reform, to be ready to meet the fierce competition in world markets, and to further the fast and vigorous development of China's economy, it is necessary for us to continue exploring new roads to develop our foreign trade and to intensify our organizational reform. It is our belief that the limited success of our reform of the export trade system in the last few years, and the many problems that have arisen in the reform, are possibly related to the fact that our reform measures so far could not exercise any effect on the original forms of organization of our foreign trade enterprises. In the wake of China's continued opening up to the outside world, the old patterns used by our foreign trade enterprises were not only unsuited to the needs of expanding exports to earn foreign exchange, but actually had become more and more of a hindrance to intensified reform of our export trade system. More and more people now realize that the development of lateral economic ties is a good way for a more thorough reform of the foreign trade system and to increase exports to earn foreign exchange. However, we must also realize that the principal party concerned in lateral ties for export trade are the enterprises, and that perfecting these ties depends ultimately on the organizational forms of the enterprises. In other words, the crucial point that will decide whether it will be possible to intensify the development of lateral ties and have them prove successful, is to what extent it will be possible with the aid of lateral ties to effect an important restructuring of the foreign trade enterprises, so as to build up a foreign trade organization that is openly structured, highly efficient, functional in many respects, and of competitive capabilities.

The reform of the organizational patterns of China's foreign trade enterprises should draw a lesson from the experiences of Japan's comprehensive trade firms. Before as well as after the war, support of its comprehensive trade firms was a priority item in the Japanese government's industrial policy, and it made them a tool in the pursuit of its domestic and foreign policies. It was precisely because of reliance on government support that the comprehensive trade firms became the principal party in Japan's foreign trade. The business volume of only nine comprehensive trade firms, among them Mitsubishi Shoji and Mitsui Bussan, accounts for about 60 percent of Japan's import-export trade. The Japanese comprehensive trade firms are presently the most efficient form of trading organization, and they have played an extremely important role in Japan's swift economic recovery after the war and the rapid development of its foreign trade. Actually, the present organizational form of enterprises in Hong Kong and in the developed capitalist countries is essentially that of conglomerates or enterprise groups. Since organizations of this kind have great power, are versatile in their operations, enjoy high reputation, and have much competitive strength, they have become the important pillars of economic development in various countries and territories. This trend is constantly growing throughout the world, and, as it seems, should also be the direction that China's restructuring of its foreign trade enterprises should go.

The so-called foreign trade groups are integrated economic entities, built up with export industry enterprises as their foundation, foreign trade enterprises as their lead component (or core), and banks or other financial organizations as their backing, linked with sectors of scientific research, higher education, and technological development. The demand in the world market serves them as guide, their objective is to expand export and earn foreign exchange, and their operations comprise comprehensive trading in imports and exports. They are tied together by mutual shareholdings and joint investments, and enjoy certain foreign trading rights. They may adopt loose forms of economic organization, but may also form economic entities, in short, they may become unions with closely linked interests and outstanding scope and efficacy. They expand their functions from an original simple buying and marketing, to production, information gathering, financial transactions, trading, and investments. If the foreign trade group regards combined "two-way trade" as its main business concern and adopts the form of a comprehensive trading firm, it has to devote itself particularly to wholesale imports and exports. The group must also be sure to acquire the status of a legal entity, must have an independent business accounting system, and must assume responsibility for its own profit and losses.

China's foreign trade groups must have their bases in the larger key cities of the eastern region and use the sea and inland ports as their windows opening out to the world. They should selectively institute trial operations, and step by step expand their operations. They may first start out from these regions in trial operations as foreign trade groups. If foreign trade groups are first organized and set up in these more favorable locations, their business activities and foreign trade operations will develop more easily, which is bound to exercise a powerful impetus on the rapid development of a foreign trade-oriented economy in China.

## II

The development in China of foreign trade groups will be of significance in the following respects:

First, the establishment of foreign trade groups will be beneficial for promoting and integrating production and marketing and for linking trade, industry, and agriculture, also for inspiring enthusiasm among central and local authorities, as well as among foreign trade enterprises and production enterprises, beneficial also for a full utilization of all advantageous capacities of trade, industry, and agriculture, for the formation of new productive forces, and for the production and supply of many more marketable export products, in accordance with the demand and changes in the world market.

Second, the establishment of foreign trade groups will be beneficial for promoting the linkage of technology with trade, and will have expansion of foreign trade and exports built on the foundation of advanced technology. Because of the common interests of trade, industry

(agriculture), science and technology as internal components of the trade group, each branch will activate its most advantageous capabilities to the fullest extent. They will also make concerted efforts to develop new products, new materials, new technologies, new techniques, and will promote upgrading and updating of export products, increase the variety of colors and designs of commodities, improve quality and grades, process to a higher degree and add value, and thus increase the competitive strength of China's export goods.

Third, the establishment of foreign trade groups will be helpful for the rapid development of economic resources and the appropriate disposition of key production elements, and will accelerate the production and distribution process for export goods. Because of the difference in production and business conditions of the various enterprises engaged in foreign trade and in the production sectors, it had become impossible to buy or to manufacture commodities originally suitable for export. But the establishment of foreign trade groups will make it possible to adjust surpluses and shortages, to mutually even out shortages and surpluses, to break down the fences and barriers between different departments and regions, and to have presently available key production elements brought together in a better way and within a wider range, thus forming the optimum overall conditions for exports and for the earning of foreign exchange.

Fourth, the establishment of foreign trade groups will be beneficial for an elimination of domestic consumption and irrational competition among the enterprises themselves, as also for improving one's reputation and winning customers. Faced with powerful international monopolistic alliances, China's enterprises which are about to enter the world market must unite and stand together when facing the outside world. This is the only way to prevent losing out to others, and to prevent causing trouble and inconvenience to foreign businessmen by confusion in Chinese domestic price quotations and irresponsible competition in marketing. By raising China's business reputation, increasing confidence in Chinese products among foreign businessmen, and by increasing their eagerness to handle such products, we shall create favorable conditions for China to conduct effectual foreign trade.

Fifth, establishment of foreign trade groups will be beneficial for promoting the separation of government administration and enterprise operations in foreign trade; it will enliven business and raise economic returns. Forming foreign trade groups will provide real feasibility for a thorough separation of government administration and enterprise management, as it will also place industrial and trade enterprises into positions where they will themselves be responsible for their own profits and losses and do their own economic accounting. Once capital has been obtained from the bank, average social profits and bank interests may exercise pressure on them. Once expenditure is divorced from the

treasury system, it will compel them to do profit and loss accounting, and as a consequence this will constitute a powerful motivating force in view of the need to make a profit. Only under the conditions of joint investments, shared risks, shared profits, and pressures as motivating forces, will it be possible for industry and trade to truly go forward hand in hand, generate vitality, and only then will good economic returns from foreign trade operations be fundamentally ensured.

### III

In the establishment of foreign trade groups in China, it seems, it would be most suitable for the near future to employ the pattern of comprehensive trading firms whose principle operation would be the combined "two-way trade." The reasons are following the development of socialized large-scale production, the functions of production and circulation have been divided up to be performed by different sectors. Only by a further specialization in economic activities and intensified division of labor can the social productive forces continue to develop. This has become particularly conspicuous in current world trade. In the developed countries of the West, most foreign trade is done by firms specializing in international trade. In Japan, the comprehensive trading firms play the principal role, and all of them have already formed very fixed marketing channels. In the West and in Japan, the mutual dependence between industry and trade is not based on the intention of replacing each other's functions, but they have rather formed a community of interests. Foreign trade is an important link in the area of distribution, not only should it not be replaced, it must be strengthened. Anybody who would want to abolish the objective division of labor and have industry replace trade or trade replace industry would be violating economic law, as that would make it impossible for industry and trade to achieve a true organic linkage. In view of the long period of China's past closed-door policy, resulting in a lack of foreign trade experience among production enterprises, the foreign trade function must be strengthened even more, and the foreign trade function must, furthermore, be fully brought into play through the organization of foreign trade groups, whose main operations would be combined "two-way trade." In this way, we shall bring together the strong points of the various foreign trade sectors, fully utilize the various advantageous capabilities, channels, and experiences that they possess, and spur on the various export production enterprises, so as to achieve a very perfect export production setup. We believe, foreign trade groups with combined "two-way trade" operations should be the lead component in this system because the formation, development, and perfection of this system relies on micro-reproduction and the growth of the foreign trade group. When establishing foreign trade groups, we must, therefore, draw lessons from successful foreign experiences and adopt and implement business principles and a guiding ideology similar to that of the comprehensive trading firms.

The overall business ideology of China's foreign trade groups must be that all business activities must serve China's opening up to the outside world and its economic construction, with the direct objective of expanding exports to earn foreign exchange and of raising the country's macroeconomic benefits. We must break down barriers between different departments and regions, as well as the sealed-off condition of cities and the countryside. We must persist in stimulating enthusiasm in all quarters, concentrate energy on unifying our business principles in relation to the outside world, and adopt a more comprehensive business pattern in our imports and exports, greater diversification in the scope of our business, and a greater variety in our operations. Guided by the above-described business ideology, and subject to the macro-guidance of state plan regulation, the foreign trade groups shall launch comprehensive business activities, such as controlling imports, inducing exports, utilizing foreign capital, seeking overseas investment opportunities, and implementing China's state policies as to domestic and foreign trade.

As regards imports. The high consumption in the developed countries is having a strong influence on China's cities; at the same time high-grade consumer goods from China's cities are having a strong effect on the vast rural areas, as these goods are regarded as models. In addition, China's continuing opening up, domestically and toward the outside world, results in an ever increasing demand for high-grade goods and durable consumer goods. All these factors induce large-scale imports of high-grade consumer goods. It follows that if foreign trade is conducted in an unorganized way without needed restrictions on imports, it would result not only in the expenditure of large sums of valuable foreign exchange, but would also most certainly deal a severe blow to the relevant domestic industry. We had a lesson in this respect with the large-scale importation of sedans. After establishing foreign trade groups in the main ports along the large rivers and along the sea coast, we should let them have broad business monopolies with respect to the importation of some important products, to enable the state to exercise necessary indirect control of imports, and afford effective protection to the national industry, under conditions of open competition. On the other hand, the fact that many Chinese traditional industries and presently operating enterprises are in need of technological transformation, and the fact that the development of high-tech industries and the establishment of new enterprises also requires large amounts of technological equipment, leads to the objective demand for importation of technologies and of technological equipment. In recent years, domestic production enterprises have indiscriminately and duplicatively imported equipment and technologies, and have on many occasions caused huge losses. As reasons for this we find that the importing units had not been very clear about the relevant technological developments and about quotations on the world market, had also not fully analyzed the feasibility, and not obtained scientific technical and economic appraisals. After their establishment, it will be

the local foreign trade groups that must determine the appropriate direction for technological development and an optimum import policy, in accordance with the national economic plan and according to the industrial development plan for key cities and for the area in which they are located, also with consideration for the demands of the state's macro-administration. They must also organize, in cooperation with scientific research and higher education sectors, the survey and study of the international technology market. For specific projects, the importing unit must be supervised and urged to undertake a full and effective feasibility analysis; only then should they be permitted to go ahead with the importation.

As regards exports. The foreign trade groups may choose either procurement or self-production of export goods, and may choose between exporting as agents or exporting jointly with the factory. Whatever form is chosen, the best possible service should be rendered in order to maintain solid relations with the production enterprises. At the time when export business is being solicited, the foreign trade groups must provide the production enterprises with prompt information as to any changes in the types of goods, specifications, designs, packing, etc. of products in the international market, so that quick reactions and prompt adjustments can be made during the production process. If the foreign trade group has connections with many production enterprises, it must use the mechanism of common interest to urge circulation and reorganization of key production elements on a broad scale, to ensure that the export contracts are fulfilled as to quantity, quality, and time of delivery. On the other hand, the state, it seems, should issue allocation permits directly to the foreign trade groups. This would enable the latter to effectively influence the production enterprises to adopt an export orientation, and would realize the state's macro-strategy for export trade. Moreover, the state would be enabled to effect through the foreign trade groups a sensible break up of the export market and a timely restriction on unauthorized exportations, prevent mutual competition among the enterprises themselves, prevent confusion in the world market, and prevent retaliation by foreign government through "counter-dumping." At the same time, it would strengthen the customers' business confidence, and help maintain and expand marketing channels. As to self-imposed restrictions on exports, the foreign trade group would coordinate and distribute export allocations and should then also be responsible for supervision of how they are applied. It must also be pointed out that exports in this context also comprise the export of labor. Most of China's economic cooperative projects with foreign parties are physical labor intensive, and many projects experience exploitation by middleman in other countries. After foreign trade groups have been set up, we would have to take advantage of their many international connections, their strength, and their high reputation to directly contract for engineering projects, thus earn more foreign exchange and furthermore stimulate the exportation of machinery, electrical items, and construction materials.

As regards exploitation of natural resources, investments abroad, and comprehensive business operations. To upgrade export products, develop the export of new products, or to overcome shortages of raw and other materials, and to satisfy the needs of production, it is at times necessary to import certain foreign materials. Our foreign trade groups must fully utilize various international connections and trade channels, to import as cheaply as possible the raw and other materials that are in short supply domestically, in accordance with the needs of domestic industrial development, using turnover foreign exchange and foreign exchange for export-supporting imports. To extend the process of social reproduction from China to countries abroad, to gain the advantages of "comparative gains" and international division of labor, the "opening-up" of China must in the future also include investments abroad. One way to do this would be to rely on the organizational faculties of the foreign trade groups for investments or joint ventures in developing countries or even in developed countries, with the participation of banks or production enterprises. Because group investments may mean higher prestige and dispersal of risks, it may also considerably reduce the costs of conducting import and export business at considerably lower costs. Investments abroad by foreign trade groups must pursue different direct objectives. The purpose of some may be to earn profits within a short period of time, some may invest to build up, perfect, or expand an infrastructure abroad (such as setting up marketing centers abroad for the foreign trade group and relevant equipment for that purpose) in order to facilitate expansion of exports. Some may combine with domestic production enterprises in joint ventures with enterprises in foreign countries, not to make profits, but to benefit from the commercial privileges of the joint enterprise and thereby enable the foreign trade group to expand the scope of its business operations. The purpose of some is the exploitation of natural resources abroad and their importation into China. Some may utilize the export credits of the developed countries to facilitate the importation of foreign capital, import foreign technologies and equipment, and create increased export opportunities. If China's foreign trade groups would go one step further and join up with domestic production enterprises in closely organized economic entities or join in enterprises with three capital sources, they could, in the double role of users as well as customers, promote exports by imports. They could yield an appropriate sector of the domestic market to foreign firms, and exchange markets for technologies. They could also through adroit technology trade, utilizing foreign capital channels, import advanced technologies and promote exports by a resale of products. The scope, breadth, and progress of China's opening up to the outside world is, to a large extent, directly determined by the balance of its foreign exchange, and the effective way to improve the capacity for a foreign exchange balance is the continued expansion of foreign economic and trade relations to greater comprehensiveness and a broader scope. After establishing foreign trade groups in China, we should forge ahead in this direction and launch tripartite or

multiparty international trade which would be impossible to engage in by any single enterprise alone. Only through above-mentioned investments abroad, multiparty trade, diversified business operations, import-export linkages, and comprehensive development, can China's foreign trade enterprises truly become world-oriented, and can China's domestic and foreign economic policies be fully implemented.

#### IV

Basing on the above-described business ideology and operating on the above-described lines, China's foreign trade groups must give serious attention in the organization of its operations to the following questions:

1. The question of the mechanics. There have originally been some contradictions in the overlapping that occurred in the operations of the foreign trade enterprises of all types, and in the mutual infiltrations between industrial and trade enterprises. New contradiction were produced by administratively bringing about lateral linkages much like "forcing the young man to get hitched." The reason for these contradictions is the clash of interests. The main characteristic of the enterprise groups now to be organized must, therefore, be share economy, forming a close community of interests through mutual shareholdings and joint capital. Only with this kind of a mechanics can unified business operations and coordinated movements be achieved. The relevant functional departments and business departments of the group must therefore in united actions take on the procurement and marketing activities of every member unit.
2. The question of finance. The operational strength of the trade group is determined, on the one hand, by the scope and strength of each member enterprise, and, on the other hand, by the financial strength of the group itself. Finance means fund accommodation. As it is a question of capital for its commercial operations, the foreign trade group must give particular attention to the financial question. First of all, as regards conditions within the group, the relation between the group and its subordinated companies is not only one of wholesale business, but mainly one of investment of capital and finance, in order to gain from this relation interest and dividend income, while the group at the same time effectively regulates and controls the subsidiary companies, forming a kind of holding company relationship. Second, in view of China's serious shortage of capital for production and domestic as well as foreign trade, it is necessary for the foreign trade groups to have strong "external" (i.e. outside the group system) financial capabilities, allowing them to issue debentures in China and abroad, and to absorb savings deposits, as additional sources of finance and to promote broadening of business operations. In actual fact, as a consequence of the development of commodity economy, industrial and commercial capital to a certain

extent is naturally tied up with finance capital. For instance, most of the large Japanese conglomerates are organized as a triad of bank, industry, and commercial firm. They are financially backed by the bank, which continuously provides loans to the members of the group at favorable interest rates. For internal trade within the group internal prices are used. They have, therefore, abundant funds at their disposal, which enables them to greatly strengthen their competitiveness and expansionist efforts toward the outside world. Furthermore, since all business activities by economic organizations in the commodity economy will ultimately have to show up as increments of capital, it is only by setting up a suitable finance organization or structure within the group that will enable the group to have a center where internal and external business operations will be tied together.

3. The legal question. As the foreign trade group will be organized by units that are legal entities, such as its original foreign trade enterprises, industrial, agricultural, commercial, and communications enterprises, banks and trust companies, higher education and scientific research organizations, so as to form a composite bound together by internal economic and trade ties, the group itself must also have the status of a legal entity. It must observe the policies, laws, and regulations of the state, and pay taxes according to regulations. Its principles of operation shall be autonomy in business operations, independent business accounting, responsibility for profits and losses, and authority to handle its own assets and obligations. It is of course subject to civil liabilities. There must be no interference by the administration in the group's external economic relations; its responsibility is only toward its member units. Apart from the functional departments, the various domestic subsidiaries and affiliated foreign companies should best also be first-grade legal entities, which are financially responsible to the group and should constitute independent cost and profit accounting units at the second level. It follows that clearly defined dividing lines should be drawn as to the assets of the various subsidiaries and also between their assets and those of the group, also as regards the use of capital funds, the scope of business operations, and other such rights, which all enjoy legal protection. If a subsidiary operates successfully, benefits will accrue not only by the subsidiary itself but also to the entire group. On the other hand, if the subsidiary incurs losses or goes bankrupt, the group may not bear joint liability for repayment of debts, the loss would be only that of the one subsidiary in question. Placing the risks of business operations in this way on the various particular business sectors of the trade group is helpful in that it provides motivation for the subsidiaries, entities of the first line of business operations, and exercises pressure on them, thereby spurring them on to energetic pursuit of business, and in that it strengthens vitality and business competence of the entire group.

In conformity with the business activities and organizational pattern of the foreign trade group, the group must also devise a certain managerial structure and leadership organization. Using the experiences of Japan, Hong Kong, and other countries and territories as reference, we may consider establishing the following leadership and management structures for the local foreign trade groups.

As to leadership and management for foreign trade groups, we may consider the following. First, to institute a board of directors system for the group, the board of directors (as an organ) to be charged with policy decisions, and to be composed of representatives of the group members or shareholders. They would decide on all large administrative policies, on developmental strategy, on business orientation, on investment tactics (such as setting up new companies), on plan control (issue of allocations and permits), on the raising of funds (such as deciding on the limits of loans from financial organizations), examination and approval of budgets and final accounts, the appointment and dismissal of high-ranking cadres, personnel training, as well as on business involving foreign parties. The highest administrative leadership of the group is the general manager, who is the legal representative of the group, responsible to the board of directors, and the chief executor of the decisions of the board of directors. The general manager should be a member of the board of directors, but in general not the chairman of the board. Particularly important transactions of the group with foreign parties (involving large risks or large amounts of money) must obtain the approval of all board members including the general manager, to ensure strong and effective unity and coordination.

Second, the specific executive units under the board of directors are of two kinds—functional departments and business departments. The functional departments, in turn, comprise the coordinating department (which includes information, general business affairs, etc.), the managerial department (the general manager's office, personnel, finance, audit, planning, etc.), and the logistics department (including general affairs, accounting, etc.). The business departments comprise the specialized or regional affiliated companies, differing according to the nature of products, or trading activities (such as import and export, utilization of foreign capital, importation of technologies, export of labor, international tourism, etc.), or the sphere of markets (referring to foreign customer channels, coverage of domestic market) etc. These latter constitute the true substance of the foreign trade group. The business departments must have comparatively broad authority (especially the overseas subsidiaries). Within the fixed items and quotas of the group, it may engage in every kind of trade and investment activity related to its business. It may use the group's name to take up business relations with producer enterprises or other outside units. It may also, within the framework of the group's plan, diversify its business operations to reduce risks, to conform to

changes in the market, and earn profits from a variety of sources. The subsidiaries are independent of group finances, but must fulfill their obligation of providing and turning over profits according to their contractual obligations, while extra-plan profits may be retained as appropriate addition to their retainable profits, to be used as development funds, or to expand and develop business. A manager shall be installed as responsible person in every subsidiary company, to be mainly responsible for direct external contacts in the special line of business concerned, which indeed entails a great responsibility for risks. He is only responsible to the general manager of the group, and therefore has to be a well qualified person.

Third, the leadership and managerial organ described above is of a pattern that is centralized and dispersed at the same time in its horizontal (specialized transactions) and vertical (market areas) overlapping controls. To achieve strong unison under this type of structure in the various trade operations of the group, also to enable very close connections with the market, it is necessary to form and strengthen the group's coordinating functions. For this purpose, a coordinating department, which may be called a specialized business department and market development department, must be established within the group on the same level as the various business departments. The position of head of a business department should be one of particularly long duration, and it should entail coordination over all items of commodity trade activities, so as to coordinate the business activities in which the various specialized subsidiaries are engaged, thus regulating the product mix. The head of the development department shall mainly be responsible for coordination between regions, to coordinate the opening up of markets between the various subsidiary companies located outside of headquarters (comprising domestic and foreign locations), regulating the geographic direction of raw material purchases and product marketing. The specialized subsidiary companies must pay attention to the coordination of relevant markets for the business they are engaged in, and the subsidiary companies located outside of headquarters must pay attention to the coordination of various kinds of business activities of its group within the market of the territory where they are located. The coordinating department of the group must have a large measure of authority, and the department head may be the deputy general manager or another member of the board. If a certain transaction is one that overlaps and concerns several specialized subsidiary companies, the head of the business department shall be authorized to designate one company to play the lead role, and to combine all the other subsidiary companies for joint participation in the negotiations and signing of the contract. When coordinating their interests, the head of the business department shall have the authority to transfer a part of the profits made by a company with comparatively large profits to another company which had little profit or had suffered a loss, in order to even out benefits and losses, which, as a consequence, will strengthen the overall competitiveness

of the group as a whole. To ensure effective coordination there has to be a powerful information survey and research or information and consultation organization within the group, so as to realize within the group all domestic and foreign policies and intentions of the government and to render the group highly adaptable to the demands in the domestic and foreign markets.

V

Trade groups are the natural product of a highly developed modern commodity economy, and their continuous growth, in turn, relies on the further development of the commodity economy, to create for it the appropriate socio-economic climate and external conditions. In order to induce a rapid development of foreign trade groups in China and to have them fully play their role, the organization and establishment of such trade groups is even more urgently in need of a favorable external environment.

First, because the foreign trade group has to rely on each member unit of the group, the "invigoration" of each member's production, scientific research, and business activities is precondition for the "invigoration" of the foreign trade group as a whole. But in China where the "double track" economic system has been in operation for quite some time, the crucial point for any "invigoration" is whether they will be given a certain measure of foreign trade rights. It would, therefore, be best, on the one hand, to have the foreign trade group organized mainly by units which have foreign trade rights, and, on the other hand, to have more foreign trade authority delegated directly to the foreign trade groups and to further expand their foreign trade rights. Delegating foreign trade authority to business entities like the foreign trade groups, and not to transfer these rights between administrative departments, is an objective demand of the commodity economy and of foreign trade development.

Second, as various specialized foreign trade companies, foreign trade companies of other departments, and local foreign trade companies gradually gain independence from administrative departments, to which they had been subordinated, it is quite possible for China to establish foreign trade groups at its major ports. This will to a great extent turn around the situation of the past, in which China had a multiplicity of contacts with the outside world and dispersed business operations. At the same time it will obviously make direct control of business operations by foreign trade administrative departments unnecessary. This would demand not only further expansion of foreign trade authority to foreign trade groups, but also that delegation of the administrative powers of allocation and permits to them be considered. Practice during the last few years has proven that if administrative authority and business authority are not combined as one entity, it will at times seriously impede the development of foreign trade. If administrative powers would be delegated directly to the foreign trade

groups, it would be beneficial, on the one hand, to a separation of government administration and enterprise management and would invigorate business, and, on the other hand, would not prevent the state from exercising unified leadership in foreign trade. The state's administrative leadership of foreign trade must in the future make more use of such methods as determining domestic and foreign policy, economic levers, methods of auditing, information gathering, and issuing necessary plan norms, in an indirect macro-regulation and control of foreign trade (as to the issue of allocations and permits, this may in the future be handled by inviting public bids to undertake the work under contract). Third, if the foreign trade group is mainly an organization of commercial capital economics, the crucial point as to whether it will develop is whether it will obtain bank credits at favorable rates of interest. With large bank credits at low interest rates, its credit rating will be greatly increased, and it will have a free hand in using credit methods in its trade activities, such as credit purchases and charge sales, and bill settlements, so as to broaden its scope of business. With this purpose in mind, banks should join the foreign trade groups, and in addition various favorable conditions should be created to enable the foreign trade group to obtain bank loans on favorable terms. Finally, we should as soon as possible form a unified market system, which should comprise commodities, capital, technologies, transportation, and labor, so that the various member units of the group and the various business departments within the group may be freed of the restrictions of the old system, and that needed motivation and pressure for production and business development may be created. At the same time, we must establish a perfect system of economic laws and regulations to ensure legal protection of the legitimate interests in every respect for all group members, and also to provide legal guidance for the group's domestic and foreign business activities, which should be animated without becoming disorderly. We should, furthermore, establish and perfect an audit system, to submit the economic activities of the different foreign trade enterprises or groups to social supervision, conducive to the healthy conduct of our enterprises, and beneficial for the promotion of China's opening up to the outside world.

9808

#### **Great International Circle, Coastal Development Strategy Differences**

40060438 Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 6, 30 Jun 88 pp 15-17

[Article by Xue Xi 5641 5045: "The 'Great International Circle' Is Not Equivalent to Coastal Development Strategy"]

[Text] What is the "great international circle"? What is the coastal region economic development strategy (called "coastal development strategy" for short)? Are they two things, or one? This is really an issue in great need of

clarification, because the author often hears comrades discussing these two as one concept. It has both influenced thorough understanding and discussion of the two economic development strategies, and also hindered unifying thought and correctly implementing coastal development strategy.

The author believes that the two cannot be equated, as clear distinctions exist between them.

*First, their levels are different.* The "great international circle" was put forth by Comrades Wang Jian [3769 1696] and Pei Xiadlin [5952 1420 2651] of the State Planning Commission's Economic Research Institute. It received serious attention from party and state leaders, and attracted wide attention and deep interest in academic circles, but it has yet to be affirmed in the form of state policy; while coastal development strategy is a strategic decision concerning the acceleration of coastal region economic development which was put forth by General Secretary Zhao Ziyang [6392 4793 7122] and decided upon by the CPC Central Committee and the State Council. This strategic decision was affirmed by the 7th National People's Congress.

*Second, the purpose and content of the two differ.* The purpose of the "great international circle" is to resolve the problem of how to provide circulation between agriculture and heavy industry. The comrades who put forth the "great international circle" believe that there is a "circular" relationship between agriculture and heavy industry, and they also believe that the heavy industry currently being developed by China needs capital, as does the transfer of the surplus agricultural labor force to non-agricultural fields, which has created a contradiction in the form of a scramble for capital. They believe that "this contradiction is the principal contradiction of the current economic development." The method they propose for resolving the contradiction is as follows: develop labor-intensive product exports and, through merging the rural labor force transfer process into the great international circle, on the one hand resolve the problem of providing an outlet for the rural surplus labor force, and on the other hand utilize the international market's transformation mechanism to give play to China's strength in labor force and abundant resources, exchanging it for the technology and equipment needed for the development of heavy industry, while heavy industry then gives all-out support to the export of labor-intensive products, forming a new type of circular relationship in which labor-intensive product exports are exchanged for imports of technology and equipment needed by heavy industry, and heavy industry supports the export of labor-intensive products to the international market. As this circular flow constantly expands, the latent rural surplus labor force can be gradually absorbed. This is the primary meaning of "great international circle".

The purpose of coastal development strategy is to resolve the problem of how to develop the coastal region. Its content consists primarily of fully utilizing the favorable

opportunities brought by the structural adjustment of international industry and China's many strengths, such as its coastal region's labor force and abundant resources, to vigorously develop an export-oriented economy in the coastal region, including laying stress on the development of labor-intensive industry (while not ignoring knowledge-intensive industry and high tech industry) and processing industry to carry out the policy of "both ends abroad; large volume of imports and exports" (while at the same time paying attention to the development and utilization of domestic sources of raw materials and lateral economic ties between the coastal region and the interior), encouraging foreign commercial investments and actively setting up the three kinds of partially or wholly foreign-owned enterprises, and in this way accelerating economic development of the coastal region and giving impetus to the whole nation.

*Third, the two were produced from different foundations.* The "great international circle" is a theoretical probe and inference, and lacks a practical foundation, while coastal development strategy is the inevitable outcome of the development of China's policy of opening up to the outside world. In 1978, the 3d Plenum of the 11th CPC Central Committee made an important policy decision: reform and opening. From that time, the closed floodgates started to open, and the tide of opening came rolling in. In 1979, the State Council decided to set up SEZ's in Shenzhen, Zhuhai, Shantou, and Xiamen, and implemented special policies and flexible measures to encourage port businesses and foreign businesses to come invest or set up factories. In 1982, the State Council proposed utilizing both domestic and foreign capital, resources, and markets, and mastering two sets of abilities. The idea of developing an export-oriented economy grew clearer day by day. In 1984, the State Council decided to open 14 coastal cities and Hainan Island, with the focus on utilizing foreign capital, bringing in technology, and opening foreign markets. In 1985, the State Council further proposes opening the Pearl and Yangtze River deltas, as well as two large peninsulas, Shandong and Liaodong, and developing trade, industry, and agriculture as an organic whole. In 1986, when Premier Zhao Ziyang inspected Tianjin, Qingdao, and Weifang, he pointed out; "China's coastal region, especially the open cities and open zones, should stress development of an export-oriented economy", and "we should draw upon the experience of certain Asian nations and regions, and strengthen our own competitiveness in the international market." In November 1987, General Secretary Zhao Ziyang went first to the Yangtze River delta and afterwards to the Minnan Triangle region to conduct an investigation. Based upon past practice, and in light of this investigation and actual conditions of change which had occurred in the international industrial structure, he made a timely long speech entitled "On Coastal Region Economic Development Strategy". While regions which opened up to the outside world in the past all achieved relatively rapid development to varying degrees, the Yangtze and Pearl River deltas are the most outstanding among these. Coastal

development strategy can be called the inevitable outcome of China's opening up to the outside world, and of its historical development.

*Fourth, the two are based on different arguments.* The "great international circle" development strategy is an extension of the duality of China's industrial structure. The proponents of the "great international circle" believe that from the standpoint of the proportion of China's output value structure, the characteristics of a nation with a national per capita income of over \$1,000 are displayed, while from the standpoint of the proportion of labor force structure, i.e., the proportion of the labor force accounted for by the rural labor force, the characteristics of a per capita GNP under \$100 are displayed. This results in a contradiction between rural industrialization and the upgrading of heavy industry. They believe that the contradiction is based on the domestic cycle and is very hard to resolve. "Because the rural labor force brings limited capital into the industrial sector, it can initially be used only in those industries which have relatively little capital and need more labor to consume. The main part of labor-intensive industry is consumption industry, and its product pattern cannot support the upgrading of heavy industry. On the contrary, it may compete for the capital, raw materials, energy and the like needed for the development of heavy industry." But following the path of the "great international circle" can resolve the contradiction between these. "Through developing labor-intensive product exports, and merging China's rural labor force transfer process into the great international circle, we can use the transformation mechanism of the international market to unify the two major goals of industrialization, and allow them to change from a relationship of mutual exclusion and contradiction to one of mutual complementarity and promotion." [World Economic Herald, 28 March 1988]

The basis of the argument for coastal development strategy is the favorable international opportunities and the strengths of the coastal region. This is because, amid world economic development, as labor cost conditions change, there is constant industrial structural adjustment by the developed nations, and this is precisely the transfer of labor-intensive products from places where labor costs are high to places where labor costs are low. In terms of the Asian-Pacific region, in an earlier period the transfer was from the U.S. to Japan, while later it was to Taiwan, South Korea, Hong Kong, and Singapore. In recent years, which such factors as the rise in value of the Japanese yen and the Taiwan dollar, the labor-intensive industries of Asia's "four small dragons" have again shifted to places where the cost of labor is lower than theirs. By comparison, labor costs in China's coastal region are low (labor costs in the Pearl River delta are only from one-fifth to one-tenth of theirs), the caliber of the labor force is higher, transportation is convenient, the infrastructure is also better, and in particular, scientific and technological development capability is greater.

This gives the coastal region an excellent opportunity to demand the formation of a development strategy suitable to itself.

*Fifth, the two use different specific measures for realizing strategy.* The "great international circle" put forth strategic development stages. There are three such stages. The first stage focuses on the development of the coastal region's labor-intensive product exports, while at the same time strengthening communications and transportation in the inland provinces and regions, in order to prepare conditions for the gradual expansion of export products into the central and western regions. In the second stage, export industry starts to move into the central and western regions. In the third stage, after basic industries and infrastructure become full-fledged, the focal point of foreign exchange utilization begins to be shifted to the transformation and improvement of the production capacity and technological level of heavy industry and processing industry, and promoting the development of high added value industry. The strategic focal points of the "great international circle" are as follows. First, it is necessary to select the labor-intensive export products whose development is to be given priority. Next, it is necessary to adjust China's market structure based on the characteristics of labor-intensive products. Third, allow township enterprises to become the backbone of China's export created exchange. The proponents of the "great international circle" put forth the following measures for promoting exports of labor-intensive products: (1) Reduce the acreage of domestic grain fields, import a portion of our grain, use the replaced land to develop cash crops, and resolve the problem of increasing processed raw materials for labor-intensive product exports. (2) It is necessary to strictly control the rate of rise of the domestic consumption level, in order to maintain the advantage of low labor costs. (3) It is necessary to regard increasing processing depth and striving for economy of scale returns as the long-term guidelines for developing a labor-intensive export industry. To this end, it is necessary to reform the existing tax system, making a transition from the present tax system based on turnover tax to a tax system based on value-added tax.

The main points of the coastal development strategy are as follows. First, develop labor-intensive industry, as well as combined labor- and knowledge-intensive industry; next, coastal process industry must adhere to the policy of "putting both ends abroad, large volume of import and export"; the so-called "putting both ends abroad" refers to putting the two ends of the production and operation process (raw materials and marketing) in the international market; third, the utilization of foreign capital should be focused on attracting direct foreign commercial investment, and vigorously developing the "three kinds of partially or wholly foreign-owned enterprises", namely wholly foreign-owned enterprises, Sino-foreign joint ventures, and Sino-foreign cooperative ventures, and switching to an export-oriented economy as soon as possible. In order to realize this strategy, it is necessary to adopt the following measures. First, it is

necessary to reform the original foreign trade system, and the specific method for this is "bearing the responsibility for profits and losses oneself, decontrol of operation, combining industry and trade, and implementing an agency system". Second, further stimulate the enterprise mechanism, and give full play to township enterprises' role as a vital new force. Third, conscientiously raise the level of management, and let foreign entrepreneurs come to China and manage enterprises according to international practice. Fourth, promote the transformation of science and technology into a productive force, give full play to the strength of China's scientific and technological development, and allow scientific and technical personnel to run enterprises, particularly technology-intensive industries. Fifth, deal adequately with the relationship between coastal economic development and national economic stability. This requires, first, that coastal regions, when adopting further measures for reform and opening, take care to avoid those contradictions and frictions which can occur with a stable national economy. Next, the coastal region, during its economic development, must avoid vying with the interior for raw materials and markets, and certainly must implement the policy of "putting both ends abroad" and change to an export-oriented economy.

*Sixth, the two take differing views with regard to material and human factors.* The "great international circle" makes no reference to the relationship between material and people, while coastal development strategy pays close attention to this relationship. For example, on the one hand it stresses material conditions, improving the investment climate, and establishing an effective mechanism, while on the other hand it also pays close attention to renovating people's thinking and ideas, such as cultivating a strong sense of competition, acting according to international practice, allowing able people to run factories, and changing the old idea that letting foreigners manage enterprises is tantamount to losing sovereignty.

These are the points on which the "great international circle" and coastal development strategy differ.

Naturally, the "great international circle" and coastal development strategy also have some points in common. For example, both attach importance to developing labor-intensive product exports, and attach importance to the development of township enterprises. However, the basic points of the two differ. Clearly, we cannot and should not confuse and equate the two.

13387

**Results of Beijing's Foreign Trade Reform**  
40060449A Beijing BEIJING RIBAO [BEIJING DAILY] in Chinese 5 Jul 88 p 1

[Article by Zhao Songsen 6392 2646 2773 and Yang Qinghua 2799 1987 5478: "Beijing's Foreign Trade Reform Shows Promising Results, First Half Exports Reach Record High, Reaching \$550 Million, 122 Percent of Last Year's Total for the Same Period"]

[Text] Beijing Municipality's active pursuit of foreign trade system reform over the first half of the year

accelerated foreign trade exports. By the end of June, exports had already reached \$550 million, completing 70.6 percent of the national plan for the year. This represents an increase of 22 percent over the same period last year, and sets a record high for this period. Purchases from supply sources totaled 1.78 billion yuan, a 16.5 percent increase over the same period last year. Beijing Municipality is also doing a good job at attaining the three targets of state contracts.

Development of exports in Beijing Municipality has been fairly rapid this year; average monthly exports from January to June reached over \$90 million, \$17 million more than the average monthly exports for last year. Exports in June reached \$110 million, a record total for monthly exports.

This is the first year of implementation of the foreign trade system reform. The Municipal Party Committee and the Municipal Government are treating foreign trade system reform and development of the export-oriented economy as a primary work item to tackle this year. The Municipal Government has decided to implement a double track contract responsibility system for foreign trade enterprises and export production enterprises so as to guarantee completion of the state contracted foreign trade export mission for Beijing Municipality. Namely, foreign trade enterprises work toward the target of earning foreign exchange through exports and export production divisions work toward the target of supplying exports. Also, a system of rewards and penalties has been formulated accordingly.

Implementation of the double track contract responsibility system has aroused the enthusiasm of foreign trade and production enterprises. Many enterprises try to think of ways to open up new supply source channels and develop many various kinds of horizontal integration. The Municipal Jewelry Import-Export Company, together with 52 foreign trade enterprises and production factories from seven provinces and cities, formed the "Beijing Jewelry Export Corporation". The further broadening of territory covered by industry-trade integration has increased supply source channels and the stamina of exports. Units including the Municipal Electronics Import-Export Company created the "Peony Corporation", spearheaded by the Peony Brand television; the Municipal Five-Mineral Import-Export Company, together with manufacturers concerned, established the Jin Gu Jian [4868 0942 0115] Export Corporation"; the Municipal Handicrafts Import-Export Company, together with suburban county foreign trade companies, created the "Handicraft Export Corporation." These new horizontal integrated bodies are of mutual benefit to the members and play a wonderful role in such areas as developing production, raising the quality of export products, increasing product variety and expanding foreign trade exports.

In order to spur enterprises on to greater exports, the Municipal Government has also formulated a series of new policies for the encouragement of export reforms

and has issued them as the official documents of the Municipal Government to the lower levels for execution. Consolidated municipal departments concerned have also adopted a series of favorable measures in foreign trade export work. The Beijing branch of the Bank of China has drawn up ten measures to support the deepening of foreign trade reforms and enlarge exports, aiding foreign trade enterprises and export production enterprises in such areas as credit, documentary bills and loans. The Beijing Customs office has established a bonded warehouse to support foreign trade exports. The Municipal Finance Bureau, the Labor Bureau and the Taxation Bureau have approved a reform of the labor wage system for foreign trade enterprises, with a floating link between wage bills and economic results for preliminary enterprises.

Under the "favorable climate" with the Municipal Government actively carrying out the new foreign trade system and working hard to enlarge foreign exchange earnings from exports, municipal foreign trade departments have accelerated their export deals by seizing favorable opportunities in the international market and using flexible trading methods. By the end of June, clothing, handicrafts, drawnwork, light industry, machinery, medicine and automobile companies among others have all completed over 70 percent of their export plan for the year; whereas jewelry and precious metals companies as well as the three kinds of partially or wholly foreign-owned enterprises have fulfilled their yearly export missions in advance.

13072

**Shanghai Urged To Set Up Enterprises Overseas**  
40060449B Shanghai JIEFANG RIBAO [LIBERATION DAILY] in Chinese 13 Jul 88 p 1

[Article by Xue Peiyi 5641 0160 3015: "Adapt to the World Economic Trend; Give Full Play to Shanghai's Strength, Shanghai Urged To Boldly Set Up Enterprises Overseas, the Municipal Government Is Expected To Look Into Relevant Preparations for Transnational Enterprises"]

[Text] "Shanghai should boldly set up enterprises overseas." After this paper published an article on just that subject on 2 May, the issue of enterprise transnationalization has become a popular topic of conversation among Shanghai's export entrepreneurs and theoretical workers. Yesterday, the Association of Export Commodity Enterprises from Shanghai Economic Zone invited comrades from related departments of the Shanghai Municipal Government, and persons from business, science and technology, legal, financial and theoretical circles to a seminar where a thorough discussion was held on the theoretical and practical issues involved in the transnationalization of Shanghai enterprises.

The transnational company is one kind of economic phenomenon that quickly rose in development after the Second World War. At present, it has become a major feature of economic activity in the contemporary world. What is worth noting is that transnational companies are on the rise in developing nations. Under this international backdrop, certain middle-aged and young theoretical workers from Shanghai have proposed the transnationalization theory that "Shanghai should boldly set up enterprises overseas." This is made based on the reforms of the liberalization policy as well as the demands in development of the export-oriented economy in the coastal region. After this paper published an article on 2 May addressing this topic, we then printed another article on 13 June entitled "Capital Export is a Feasible Form of an Export-Oriented Economy—A Supplementary Analysis of the Shanghai Enterprise Internationalization Issue." Now, this issue has attracted the close attention of leading municipal comrades, departments and enterprises concerned.

Investigation reveals that at present Shanghai has already set up several tens of transnational companies in twelve countries and regions with a total investment of \$25 million. Although the amount is small, Shanghai entrepreneurs have begun the practice of running transnational enterprises. At the end of last year, when the Association of Export Commodity Enterprises from Shanghai Economic Zone distributed questionnaires to nearly 1,000 export enterprises concerning the state of affairs and problems in the export-oriented economy, the response from the enterprises was overwhelmingly enthusiastic. More than 200 enterprises proposed the specific conception of transnationalized management. This year, while a number of enterprises have obtained authority to directly manage their businesses overseas, another 35 enterprises have applied to the Foreign Economic Relations and Trade Commission to directly set up enterprises overseas.

At the seminar yesterday, some comrades felt that, speaking from the actual level of economic development in Shanghai, the transnationalized management of enterprises would have economic significance in three areas: (1) while helping further expand exports, setting up transnational enterprises could bypass tariff barriers, reduce the effect of trade protectionism on Chinese product exports, protect existing export markets, and also it could take advantage of the import quota system commonly adopted in international trade to enter the international networks through third country transnational enterprises; (2) setting up transnational companies that exploit the natural resources of other countries would help to ensure a supply of the various natural resources we are short of; and (3) it would help in obtaining advanced production technology, management knowledge and sales skills that are difficult to obtain domestically. At the same time, it would also enable entrepreneurs to understand the general customs in international management, thereby training a group of entrepreneurs familiar with international business management and administration.

Many participants at the seminar proposed that the transnational enterprise acting as one kind of trend in Shanghai's export-oriented economic development ought to be placed on the government's agenda as soon as possible. They also proposed that preparatory work on theory, policy, talent and measures should be improved and sped up to push enterprises out into the international arena, and that enterprise overseas development act as the catalyst in adjusting the export mix and industrial structure in Shanghai. Furthermore, enterprise overseas development must be actually launched from Shanghai, and considered from the standpoint of strategies for Shanghai's export-oriented economic development and long term economic development.

At the seminar, such units as the Shanghai Watch Company, the Bank of Communications, and the Mei Lin Canned Foods Company exchanged opinions about their lessons from experience, plans and problems existing in running an overseas enterprise. The economics advisor of the Shanghai Municipal Government Wang Daohan [3076 6670 3211], and the Vice Chairman of the Standing committee of the Shanghai Municipal People's Congress Li Jiagao [2621 1367 6964] participated in the seminar and offered their views.

13072

**'New Trends' in Foreign Investment in Shanghai**  
*Shanghai JIEFANG RIBAO [LIBERATION DAILY]*  
in Chinese 8 Jul 88 p 1

[Article by reporter Gao Xiaoxiao 7559 5135 4562: "New Trends in Foreign Investment in Shanghai, Famous Transnational Companies Come to Shanghai for Industry Investment, Forty-Seven Foreign Investment Projects Approved in the First Half of the Year, Eighty Percent Are Industrial Production Projects"]

[Text] New trends emerged in Shanghai's attraction of foreign investment in the first half of the year. There were a high proportion of industrial production projects, many international transnational companies, and numerous enterprises with advanced technology. By the end of June, forty-seven foreign investment projects had already been approved, with over eighty percent of these being industrial production projects.

Among the projects approved in the first half of this year were joint ventures producing semiconductors, alloy steel balls, bearings, automotive components, electronic quartz watches, various kinds of insulated wire and cables, and non-woven rugs. Up to the present, Shanghai has already approved 338 direct foreign investment projects with total foreign capital of \$1.925 billion.

Of the direct foreign investment projects that were approved in the first half of the year and are currently being undertaken, many are internationally well-known transnational companies. The Shanghai Philips Semiconductor Company that was approved and set up not

long ago is a joint venture between a well-known trans-national company, Philips of the Netherlands, and the Seventh Shanghai Radio Plant. Other well-known international companies that are building plants like Xerox, Coca-Cola, Johnson, [ying ge suo lan 5391 2706 4792 5695] and [ge lei si 2706 7191 2448] of the U.S. and the [shi ge lan mu 2457 2706 5695 8281] Company of Canada, after setting up joint ventures in Shanghai, introduced fairly high technology into Shanghai. It won't be long before they are in operation.

In the first half of this year foreign businesses have come to notice the improvements in Shanghai's investment environment. They've especially had a fairly good impression of the newly formed Shanghai Municipality Foreign Investment Commission primarily because it is a one-stop examination and approval center for foreign investment projects where red tape is avoided. Work efficiency has been heightened and results are seen immediately. The foreign investor of the Shanghai General Motors Bearing Co., Ltd., a Sino-U.S. joint venture, told reporters that he only spent seventy days from the time he signed the letter of intent up till the signing of the contract, something which would be very difficult to accomplish in other countries. The Japanese general manager of the Sihualu [4828 5478 7216] Cosmetics Company, a Sino-Japanese joint venture, which formally went into operation not long ago said, "We spent only a few months preparing construction of the plant and it went very smoothly which clearly shows the great improvements in Shanghai's work." Most other joint ventures that were put into production in the first half of the year are already showing a profit. Up till now, there are already 165 projects under production and operation, with about 20 countries and regions involved in investment.

13072

**Zhejiang Joint Venture Rules**  
*OW0808141888 Hangzhou ZHEJIANG RIBAO in Chinese 27 Jul 88 p 3*

[Text] Announcement No. 3 of the Standing Committee of the Zhejiang Provincial People's Congress:

The "Zhejiang Provincial Regulations Governing Labor and Personnel Management in Sino-Foreign Ventures" have been adopted by the Fourth Session of the Standing Committee of the Seventh Zhejiang Provincial People's Congress on 23 July 1988, and are hereby promulgated for implementation.

[Signed] Standing Committee of the Zhejiang Provincial People's Congress

[Dated] 25 July 1988

**Chapter I: General Provisions**

Article 1: These regulations have been drawn up in accordance with the "Law of the PRC on Sino-Foreign Joint Ventures" and other related laws and regulations, and in accordance with the actual situation in Zhejiang in order to improve the management of labor and personnel in Zhejiang's Sino-foreign joint ventures and to encourage the development of Sino-foreign joint ventures.

Article 2: All Sino-foreign joint ventures (hereinafter referred to as joint ventures) established within the boundaries of Zhejiang Province shall be governed by these regulations.

**Chapter II: Employment, Dismissal, and Resignation of Workers and Staff Members**

Article 3: In accordance with the law, a joint venture shall have the right to decide the appointment of personnel, and the right to set up its organizations and personnel complement based on its production and operation needs.

A joint venture's plan for the appointment of personnel shall be decided upon by itself, and be submitted for the record to the relevant departments and the labor and personnel departments of the city and county (district) where it is located.

Article 4: A joint venture shall hire workers, specialized and technical personnel, and management staff on its own by inviting applications openly. After examination, it will select the best for employment. However they must not hire students who are still attending school, or juveniles under the age of 16.

Based on its needs, a joint venture shall give preference to the employment of workers and staff members of its Chinese partners.

If a joint venture cannot find the required workers and staff members locally, it can hire from other localities. The relevant labor and personnel departments shall provide the proper assistance. If a joint venture has to recruit workers from villages, it must obtain approval from the labor department of that locality. The household rations of workers so hired will be dealt with according to relevant state regulations.

Article 5: Units whose workers and staff members are recruited by a joint venture should lend their support to encourage the mobility of labor. If such units try to create unreasonable hinderance, a worker can offer his resignation, and his length of service after resigning will remain valid. Should any dispute arise, the worker concerned may seek arbitration from the labor dispute arbitration committee of the city or county (district) where the joint venture which hired him is located, or

the personnel exchange service organization authorized by the government of that locality. The relevant parties must abide by the decision so arbitrated.

**Article 6:** The appointment and dismissal of general managers, deputy general managers, and other senior management personnel shall be decided by the board of directors of the joint venture. During their tenure of appointment, no department or unit shall have the right to transfer them or change their duties without the consent of the board of directors.

**Article 7:** Except for workers and staff members of the original enterprise that have remained behind, the Chinese side of the joint venture must make necessary arrangements for redundant workers who are not hired by the joint venture.

**Article 8:** If staff members and workers employed by the joint venture are to be put on probation, the length of their probationary period shall be 3-6 months.

**Article 9:** Staff members and workers of the joint venture shall sign a labor contract with their employers. The joint venture shall, according to the needs of production and operations, sign with respective staff members and workers a labor or employment contract in which the length of service is specified. The contract must accord with the provisions of relevant state laws as well as rules and regulations, and shall cover the following:

1. Production or work assignments;
2. The length of the probationary period and the length of service;
3. Remuneration, labor insurance, and welfare;
4. Conditions for production and work, and labor protection;
5. Labor discipline, rewards and punishments, as well as dismissal and resignation;
6. The responsibilities one shall bear in case of breach of contract; and
7. Other provisions both sides deem necessary.

The contracts, once signed according to law, shall immediately take effect and shall be strictly fulfilled by both sides. If one side wishes to alter the contract, he shall obtain the consent of the other side through consultation. The contract can be renewed upon expiration provided both sides agree.

The standard copy of the contract shall be submitted for the record to the relevant departments and to labor and personnel departments of the cities and counties (districts) where the joint venture is located. The aforementioned departments shall respectively supervise and inspect the execution of the contract.

**Article 10:** Any side that breaches the labor or employment contract, causing economic loss to the other side, shall, according to the loss and due responsibilities, pay compensation to the other side.

**Article 11:** The staff members and workers of the Chinese side of the joint venture shall keep a "Labor Handbook," which will be issued by the labor departments of cities and counties (districts). The "Labor Handbook" will serve as a work certificate. It will also serve as a voucher when applying for preferential unemployment and retirement insurance, and as a document when seeking re-employment.

**Article 12:** A joint venture is entitled to cancel the labor or employment contract as well as dismiss staff members and workers, provided one of the following grounds is cited:

1. Failure to meet work requirements during the probation period;
2. Failure to carry out original assignments or any other assignments of the joint venture after a specified period for medical treatment due to sickness or off-duty injury;
3. Violation of labor discipline resulting in dismissal according to provisions of the contract;
4. Redundant staff members and workers due to changes in production technology; or
5. Closure of the joint venture.

**Article 13:** A labor contract or appointment contract is to be automatically invalidated when an employee is fired, sent for reeducation through labor, or sentenced by a court.

**Article 14:** Joint ventures are not allowed to terminate labor contracts or appointment contracts, or to dismiss employees if any one of the following conditions can be applied:

1. An employee is under prescribed medical care due to illness or off-duty injury;
2. An employee is under medical care due to illness or on-duty injury, or if a labor evaluation committee confirms that an employee has partially or totally lost his or her work ability after a period of medical treatment;

3. A female employee following the family planning program who is pregnant, confined, or breast-feeding; or
4. A contract has not expired and Article 12 does not apply to the case.

Article 15: An employee may terminate a labor contract or appointment contract under one of the following conditions:

1. Government departments concerned have confirmed that a joint venture's safety and sanitary conditions are so poor that workers' health is seriously threatened;
2. An employee is not paid according to contract;
3. A joint venture does not carry out its contractual obligations or has acted against relevant laws or regulations and infringed upon the legal rights and interests of an employee; or
4. An employee has valid reasons for resignation.

Article 16: With the exception of termination of a labor or appointment contract under the conditions specified in Provision 3 of Article 12, either party of a contract should give written notice 1 month before a contract is to be terminated;

Article 17: Chinese employees whose labor contracts or appointment contracts are terminated; or who are dismissed according to Provisions 2, 4, or 5 of Article 12; or who resign according to Provisions 1, 2, or 3 of Article 15 should be given living allowances computed according to an individual employee's seniority at the enterprise. A month's net pay should be given for every year of service (net pay to be based on the average net pay of the last 3 months of service—this applies to similar cases mentioned in the following passages of these regulations).

In addition to giving living allowances to Chinese employees dismissed according to Provision 2 of Article 12, they should be given medical expenses equivalent to 3-6 months' net pay. In addition to giving living allowances to Chinese employees dismissed according to Provisions 4 or 5 of Article 12, they should be given compensation for dismissal equivalent to 3-6 months' net pay.

Article 18: Employees trained by joint ventures who resign before their labor contracts or appointment contracts expire should pay the enterprise a certain amount of the training fees as specified in their contracts.

Article 19: Chinese employees who have terminated or renounced their labor contracts or appointment contracts may be resettled as specified in the following:

1. With the exception of employees who are dismissed according to Provision 3 of Article 12 or those who

resign according to Provision 4 of Article 15, employment for those employed by the Chinese partner of the joint venture or for those transferred from other enterprises or units should be jointly arranged by departments concerned and the Chinese partner(s) of the joint venture.

2. Employees recruited from among local people seeking employment or from among employees of other enterprises, those dismissed according to Provision 3 of Article 12, and those resigning according to Provision 4 of Article 15 should register for employment at the employment service company or working people's employment center at their registered permanent residence locality. After these people are re-employed, their former employment may be added to their work seniority.
3. Employees recruited from rural areas are to return to rural areas.

Article 20: Terms of employment, dismissal, and remuneration, as well as welfare and insurance for foreign staff members and workers and those legally employed from Hong Kong, Macao, and Taiwan are to be decided by the board of directors of a joint venture and specified in the contracts.

Article 21: Joint ventures should establish educational training funds for training staffers and workers for the purpose of raising their technical and vocational level.

### Chapter III: Wages, Rewards, and Penalties

Article 22: The standards and forms of wages and the reward and allowance system of a joint venture are to be decided by the enterprise.

Article 23: The level of net pay for Chinese employees is to be decided by the board of directors according to the performance of the enterprise.

Article 24: The salary for the general manager, deputy general manager, chief engineer, chief accountant, and other senior management personnel of a joint venture is to be decided by the board of directors and reported to departments concerned for the record.

Article 25: Joint ventures should work out regulations on rewarding and penalizing staff members and workers based on relevant laws and regulations of the state and the actual conditions of the enterprise.

Employees who have made marked achievements or substantial contributions to production (or in their work) may be given rewards and/or promotions, or their pay may be increased.

Employees who have violated an enterprise's rules, regulations, or labor discipline should be criticized, educated, or, based on the seriousness of the case, given a

warning, have a demerit recorded, be demoted, be dismissed, or be fired. Penalized or dismissed employees have the right to plead for themselves.

Joint ventures should inform their enterprise trade union of their decision to dismiss or fire discipline-violating employees 5 days before they do so. The trade union in question should make known any objections within 5 days after it is informed of the decision. After fully studying and considering the trade union's opinions, the manager of the enterprise (or factory director) should make a final decision and report it for the record to the department in charge of enterprises and the labor and personnel department of the locality where the enterprise is located.

#### **Chapter IV: Labor Insurance, Unemployment Insurance, and Welfare**

**Article 26:** On the day of registration of a joint venture, the management must register all the enterprise's Chinese employees for a pension program at the social security department in the locality where the enterprise is located, and pay a specified amount for the pension program.

The amount to be paid for the pension program is not to be less than 25 percent of the total net pay for all Chinese employees of the enterprise. The exact amount is to be decided according to this principle by the local city, county, or district government.

The pension program covers pension, medical expenses, allowance for a funeral, compensation and living allowances for an employee's immediate family members financially supported by the employee. Relevant regulations of local state enterprises should be referred to when issuing these pensions and allowances.

**Article 27:** A period for medical treatment comparable to that given to state enterprise employees is to be granted to Chinese employees who are sick or injured during off-duty hours. Medical expenses incurred during the period for medical treatment, wages for an employee while he or she is on sick leave, allowance for a funeral, and compensation and living allowances for an employee's immediate family members financially supported by the employee are the responsibility of the enterprise.

Medical expenses and wages for employees injured or disabled during work hours, and for those suffering from vocational illness; and a funeral allowance for employees who die during work hours, and the compensation and living allowances for their immediate family members financially supported by them are to be borne by the enterprise according to relevant regulations of state enterprises.

**Article 28:** A joint venture must bear financial responsibility for the development of welfare facilities for its staff members and workers.

**Article 29:** A joint venture should draw bonus and welfare funds for its staff members and workers from its after-tax profits. Welfare funds used for the collective welfare of the staff members and workers should be spent under the supervision of the trade union in the joint venture.

**Article 30:** A joint venture must adopt the unemployment insurance system to cover its Chinese staff members and workers. It should monthly pay for its Chinese staff members and workers the same amount of unemployment insurance fees as a state-run enterprise does to the labor service company in the city or county (district) where the joint venture is located. The staff members and workers who are laid off shall draw unemployment pay from the labor service company in the city or county (district) where their households are registered in the same way as the staff members and workers of any local state-run enterprise.

**Article 31:** If the Chinese joint venture partner is a town or township enterprise or a private enterprise, the amount of retirement insurance and unemployment insurance funds and other welfare benefits for the Chinese staff members and workers should be specified by the local city or county (district) people's government according to the actual local situation.

#### **Chapter V: Labor Protection**

**Article 32:** A joint venture must implement the nation's rules and regulations on labor protection and the nation's special regulations for the protection of female workers; adopt measures for labor protection in order to ensure safety in production and workers' good health; and accept the supervision and inspection of the departments concerned.

It should issue articles, in accordance with actual needs, for its staff members and workers for labor production and foodstuffs to keep them in good health.

**Article 33:** Incidents involving casualties, occupational poisoning or injuries of staff members and workers in line of duty should be timely reported by a joint venture to the relevant local department for investigation and handling.

**Article 34:** A joint venture implements the nation's existing system on work schedule. It should exercise strict control against any undue extension of a worker's work hours. The staff members and workers should get overtime pay when there is a need for them to work an extra shift or extra hours. The trade union in the enterprise may file a complaint against the continuous need for the staff and workers to work extra shifts or extra hours to the extent of affecting their health. The local labor department is also authorized to stop such a practice.

Article 35: The staff members and workers of a joint venture are entitled to official as well as general holidays specified by the state and other leave with pay on various occasions such as visiting relatives and attending a wedding ceremony or funeral service, as well as maternity leave for female workers.

#### Chapter VI: Labor Disputes

Article 36: Labor disputes between a joint venture and its staff members and workers that occur because of the venture's dismissal or discharge of those staff members and workers who violate discipline shall be resolved through consultation between the two disputing parties. If consultation cannot resolve the matter, one or both parties to the dispute may request arbitration by the local labor management department. If one party does not accept the arbitration, it may file a suit, within 15 days of receiving the written order, in the people's court where the joint venture is located. If one party neither appeals nor execute the written order when it is overdue, the other party may request the people's court to forcibly execute such an order.

#### Chapter VII: Supplementary Provisions

Article 37: The labor and personnel management problems of Chinese-foreign joint ventures, enterprises run exclusively with foreign investment and those joint ventures and cooperative enterprises with investment from Overseas Chinese, Hong Kong and Macao compatriots, and Taiwan compatriots, and ventures run exclusively with investment from these compatriots in Zhejiang Province shall all be handled in accordance with these regulations.

Article 38: A joint venture should submit, in accordance with the provisions of the state rules and regulations on statistics, its statistics report on wages to the statistics department, the labor department and the department in charge of the venture in the city or county (district) where the venture is located.

Article 39: The provincial labor, personnel and administrative departments are responsible for interpreting these regulations which are to be implemented under the supervision of these departments.

Article 40: These regulations shall go into effect on the day of their promulgation. The "Procedures for Labor Management in Chinese-Foreign Joint Ventures in Ningbo City" adopted by the 14th session of the Standing Committee of the 6th Zhejiang Provincial People's Congress on 15 June 1985 is declared null and void on the day of promulgation of these regulations.

## AGRICULTURE

### 1987 State Farm Statistics

*Beijing ZHONGGUO NONGKEN [STATE FARMS AND LAND RECLAMATION] in Chinese  
No 5, 24 May 88 pp 6-7, 18*

[Article by the Statistical Office of the State Farms and Land Reclamation Bureau: "The 1987 Production and Construction Situation on State Farms Nationwide"]

[Text] In 1987 the state farm system conscientiously continued to uphold the spirit of CPC Central Committee Circular No 8—to intensify economic restructuring, promote the system of farm (or factory) director responsibility, introduce the mechanism of market competition, further readjust industrial composition, launch a "double increase and double economy" movement, and maintain uninterrupted, stable development of multi-purpose management, production, and construction in the areas of agriculture, industry, commerce, construction, and transport.

#### I. Figures for State Farm Enterprises

In 1987 there were 3,077 independent accounting enterprises in the state farm system nationwide. Of these, 2,124 were farms, 384 were factories, 83 were construction enterprises, 34 were transport enterprises, and 452 were commercial enterprises. There were also 3,635 branch farms and 26,585 production teams; 8,589 farm-run factories; 68,044 commercial, catering, and service network outlets; and 1,055,000 family farms.

#### II. Population and Workers

The total state farm population was 11,444,400, up 40,000 over 1986. The farm population was 10,561,200, the birth rate was 1.390 percent, the death rate was 0.395 percent, and the rate of natural population increase was 9.95 percent.

There were 5,129,800 workers, up 35,000, or 0.7 percent, over 1986. There were 2,155,300 female workers, accounting for 42.2 percent of the total. Of the state farm working population, 4,636,400 worked on farms, 197,000 worked in independent industries, 86,100 worked in independent construction industries, 26,300 worked in independent commerce, and 14,300 worked in independent transport industries.

#### III. GVIAO, Profits, and Doubling

The GVIAO on state farms nationwide was 21.36 billion yuan, up 14.9 percent over 1986. Of this, the GVAO was 9.56 billion yuan, for an increase of 9.9 percent—higher than the 4.7 percent growth rate for the nation's GVAO overall.

The composition of the GVAO breaks down as follows: 5.95 billion yuan, or 62 percent, for cultivation; 1.55 billion yuan, or 16 percent, for forestry (including 1.36 billion yuan for rubber); 1.42 billion yuan, or 15 percent, for animal husbandry; 210 million yuan, or 2 percent, for fishery, and 430 million yuan, or 5 percent, for sidelines.

The GVIO was 11.8 billion yuan, up 19.4 percent over 1986. This was higher than the 16.5 percent growth rate for the nation's GVIO overall. The GVIO accounted for 55.3 percent of the GVIAO.

The composition of the GVIO breaks down as follows: 145 million yuan, or 1.2 percent, for coal mining; 3,487 million yuan, or 29.8 percent, for the food, beverage, and tobacco manufacturing industry; 1,439 million yuan, or 12.3 percent, for the textile industry; 447 million yuan, or 3.8 percent, for papermaking and paper products industries; 507 million yuan, or 4.3 percent, for the chemical industry; 870 million yuan, or 7.5 percent, for the pharmaceutical industry; 699 million yuan, or 6 percent, for the construction materials industry and other nonmetallic mineral products industries; 330 million yuan, or 2.8 percent, for metal products industries; 909 million yuan, or 7.8 percent, for the engineering industry; 204 million yuan, or 1.7 percent, for the transportation and freight equipment manufacturing industry; 126 million yuan, or 1.1 percent, for the electronics and communications manufacturing industries; and 546 million yuan, or 4.7 percent, for all other industries.

The GVIAO for state farms nationwide in 1987 was 219.3 percent of what it was in 1980. In the past 3 years we have achieved our goal of doubling. There were 24 provinces, autonomous regions, and central government-administered cities that doubled their GVIAO—11 more than had done so by 1986. A doubling of GVIAO was also achieved in 103 prefectural sections (or divisions), 31 more than in 1986; 968 farms, 193 more than in 1986, (and accounting for 45.6 percent of all state farms); and 195 factories, 110 more than in 1986 (and accounting for 50.8 percent of all state farm factories).

In 1987 the state farm system made a profit of 1,292 million yuan. All state farms, in every province, autonomous region, and city, profited. The total profit increased 332 million yuan, or 34.6 percent, over 1986. This was the highest profit level recorded in the nine successive years since the 3d Plenum of the 11th CPC Central Committee.

#### IV. Agricultural Production

In 1987 state farm lands encompassed 488 million mu, including 65.28 million mu of arable land, down 270,000 mu from 1986; 37.45 million mu of forest land (including 5,885,500 mu of rubber plantations), up 6.2 percent; 227 million mu of grassland, up 9.39 percent; and 11 million mu of water area, up 19.3 percent.

#### A. Crop Production

Sown crop area measured 63.52 million mu, of which 47.27 million mu were sown in grains or legumes. Gross grain production was 8.83 million tons, up 6.6 percent over 1986. This growth rate exceeded the 2.8 percent increase in grain production nationwide. State farms produced 1.22 million tons of soybeans, up 10.6 percent. Grain yielded 187 kg per mu, for a 4.5 percent increase over 1986, and soybeans yielded 96 kg per mu.

Cotton production on state farms totalled 187,800 tons, up 18.9 percent—a growth rate slightly higher than that for the nation overall.

Gross oil crop production measured 304,000 tons, for a decline of 6.4 percent from 1986. Oil crops yielded 67 kg per mu, up 3.1 percent.

The gross output of sugar crops reached 3.81 million tons, up 4.3 percent over 1986, whereas sugar crop production showed a declining trend nationwide. State farms produced 2.73 million tons of sugarcane, up 2.8 percent, and 1.08 million mu of sugar beets, up 28.6 percent.

#### B. Rubber Production

State farm rubber production totalled 211,000 tons, up 12.9 percent over 1986. Of this, total rubber output on Guangdong state farms (including Hainan and Tongshen) surpassed 160,000 tons, for an increase of 12.4 percent. Rubber yield on Yunnan state farms grew 15.8 percent over 1986.

#### C. Fruit, Tea, and Ginseng Production

State farms produced 540,000 tons of fruit in 1987, up 100,000 tons over the previous year, for a growth rate of 23.8 percent. This exceeded the 15.1 percent growth rate in overall fruit production nationwide.

Gross tea output reached 41,000 tons, up 16.6 percent. This exceeded the 8 percent growth rate for tea production nationwide.

Ginseng yielded 1,510 tons, for an increase of 11.9 percent over 1986. In Jilin ginseng production grew 13.6 percent.

#### D. Forestry Production

In 1987 forested area covered 37.45 million mu, up 6.2 percent over 1986. State farms reforested 1.10 million mu in 1987, up 8.3 percent over the previous year. We planted 36.60 million odd trees, up 11.3 percent.

#### E. Livestock and Aquatic Products Production

State farms had 2.18 million head of large livestock on hand at the end of 1987, up 5 percent over the previous year. But this represents slower growth than the 6.2

percent growth in livestock nationwide. We had 1.63 million head of cattle, up 6.5 percent, including 419,000 head of dairy cattle, up 15.3 percent.

We slaughtered 2.91 million swine in 1987, slightly more than we slaughtered in 1986. As of the end of 1987 state farms had 3,184,000 swine on hand, down 348,000 head, or 9.8 percent, from the previous year. For the nation as a whole the number of swine on hand declined only 3.2 percent.

There were 8,032,000 sheep and goats on hand at the end of 1987, an increase of 7.4 percent over 1986. This growth rate slightly exceeded the national increase of 7.3 percent.

Poultry on hand at the end of 1987 numbered 42.42 million, up 16.9 percent.

Gross meat production measured 318,000 tons, up 5.3 percent.

State farms produced a total of 734,000 tons of milk, accounting for 22.8 percent of all milk produced in China. This represents an increase of 13.8 percent—higher than the national growth rate of 10 percent.

Wool output measured 17,400 tons, up 7.4 percent.

Egg output measured 126,000 tons, up 3.9 percent.

State farms produced 43 tons of pilose antlers, up 7.1 percent over 1986.

Honey yielded 2,479 tons, an increase of 13.5 percent.

We maintained a rather rapid trend of development in fishery production, producing 127,000 tons of aquatic products, or 23.5 percent more than in 1986. This exceeded the national growth rate of 14.1 percent. Of this, ocean products yielded 24,000 tons, up 41.2 percent, and we produced 103,000 tons of freshwater products, for an increase of 19.8 percent. State farms produced 15,900 tons of prawns.

## V. Industrial Production

Industrial production on state farms has grown phenomenally—in 1987 there were 15,254 industrial enterprises on state farms, representing all different kinds of ownership. Of these, people-owned or collectively owned industrial enterprises employed 1.138 million people, and the start-up value of their fixed assets was worth 7.9 billion yuan. State farms have developed from an exclusive concentration on agriculture to become a multipurpose industrial and economic entity that encompasses 38 major industrial categories and can produce several hundred kinds of light and heavy industrial products. This has laid a strong foundation for the state farm economy to take off and soar.

The major product yields were as follows:

State farms produced 1.15 billion kwh of generated electricity, up 15.8 percent over 1986; 5,649,000 tons of raw coal, down 0.9 percent; 116,000 tons of synthetic ammonia, up 18.9 percent; 141,000 tons of chemical fertilizers, up 33.0 percent; 1,756,000 tons of cement, up 14.4 percent; 736,000 bricks, down 2.2 percent; 321,000 skeins of yarn, up 21.8 percent; 220 million meters of cloth, up 18.0 percent; 300,000 tons of machine-made paper and cardboard, up 8.3 percent; 358,000 tons of machine-processed sugar, up 3.5 percent; 453,000 tons of alcoholic beverages, up 19.2 percent; and 68,000 tons of dairy products, up 20.4 percent.

## VI. Sales of Agricultural Products, Income Turned Over to Higher Authorities, and Exports of State Farm Commodities

Total sales of agricultural products in 1987 amounted to 8.81 billion yuan, up 26.2 percent over 1986. Grain and soybean sales to the state reached 4,601,000 tons, for an increase of 5.9 percent. The percentage of marketable products declined slightly from the previous year, to 52.1 percent. Of this, state farms sold 716,000 tons of soybeans to the state, up 11.2 percent over 1986, with a ratio of marketable products measuring 58.9 percent. We turned over 3,02,400 tons of grain and soybeans to the higher authorities, down 2.1 percent from the previous year. In cotton, 171,000 tons were sold to the state, up 11.8 percent, with a 91.0 percent ratio of marketable products. Meat sales to the state totalled 183,000 tons, down 11.6 percent, with a 57.5 percent ratio of marketable products.

State farms exported 2 billion yuan worth of commodities, for a growth of 38.4 percent over 1986. Export commodities included soybeans, tea, fruit, live swine, cattle, goats and sheep, poultry, prawns, ginseng, pilose antlers, marten pelts, cans, cotton yarn, and so forth—279 kinds of agricultural and sideline specialty products and industrial goods. Of these, soybean exports measured 470,000 tons, double the previous year's figure, and cotton exports totalled 59,000 tons, up 39.8 percent.

## VII. Fixed Asset Investments

In 1987 the entire state farm system invested 2.8 billion yuan in fixed assets, up 230 million yuan, or 8.9 percent, over 1986. This was lower than the 16.5 percent growth rate recorded for the nation as a whole, but higher than the 3.1 percent growth rate in the state farm system in 1986. Of the total investment, 2.61 billion yuan was invested in fixed assets valued at 50,000 yuan or above. This represents an increase of 12.6 percent over 1986, and it accounts for 92.9 percent of all investment. Of this, 1.47 billion yuan, or 52.3 percent of the total, was invested in capital construction. The state invested 486 million yuan, accounting for 33.2 percent of the amount invested in capital construction.

### VIII. Labor Wages

Among the 5,129,800 employees in the state farm system in 1987, 4,465,000 were permanent employees and 347,200 were contract employees. Among the 4,653,600 farm employees, 3,708,300, or 79.7 percent, were laborers; 48,600, or 1 percent, were technicians; 311,800, or 6.7 percent, were administrative and management personnel; and 41,700, or 9.5 percent, [as published] were service personnel. Among the service personnel, 321,000 workers, or 6.9 percent, worked in the various schools, hospitals, and political and legal fields for which the socialized farms are responsible.

Total wages for the year came to 6,022 million yuan, up 823 million yuan, or 15.8 percent, over 1986. The average annual wage was 1,182 yuan, up 14 percent, but 17.6 percent lower than the national average annual wage of 1,435 yuan. The average annual income for family farm workers was 1,236 yuan—for the first time surpassing the average wage for state farm workers.

Overall labor productivity was worth 3,942 yuan. This represents a growth of 10 percent over 1986, but growth in labor productivity lags behind the rate of wage increases.

### IX. Scientific Research, Education, Health

There were 830 scientific research units in the state farm system in 1987, employing 38,000 workers, 7,000 of whom were scientific and technical personnel. These units occupied 386,500 mu of land for experimental purposes, up 17.6 percent over 1986. Operating expenses for scientific research amounted to 45.68 million yuan, including 24.41 million yuan appropriated by the government and 20.22 million yuan raised by the units themselves.

There were 79 scientific research units directly subordinate to the Ministry of Agriculture or subordinate to provinces or prefectures. They employed 18,400 workers, including 3,200 scientists and technicians. These units occupied 74,000 mu of land for experimental purposes. Their operating expenses amounted to 23.77 million yuan, of which 16.50 million yuan was appropriated by the government, and 6.41 million yuan was raised by the units themselves.

The state farm system had 11,912 schools and employed 207,200 educational personnel, of whom 155,900 were teachers. There were 2.41 million students in the system. There were also 16 colleges and universities in the system, up two from 1986. These institutions employed 2,500 teachers and taught 12,000 students.

The state farm system had a total of 17,700 medical units and 26,400 hospital beds. There were 84,000 medical personnel, of which 26,400 were doctors.

### X. Lateral Economic Associations

In 1987 there were 480 lateral economic coordinating organizations in the state farm system, and joint investments totalled 700 million yuan. Of this, 320 million yuan, or 45.7 percent of the total, was invested in state farms and land reclamation. These organizations employed 47,000 people, and in 1987 they achieved a GVIAO of 1,156 million yuan and a total profit of 135 million yuan. State farms and land reclamation received 70 million yuan, or 52 percent of the total profits.

12510

#### Article Discusses Establishing Regulatory Grain Fund

40060375 Beijing JINGJI RIBAO in Chinese  
17 Jun 88 p 3

[Article by Fan Di 5400 2769 and Xu Nuojin 1776 6179 6855: "Establish a Regulatory Grain Fund—A New Idea for Achieving Long-Term Stability in Grain Supplies"—First paragraph is source-supplied introduction.]

[Text] *Simply increasing agricultural inputs and raising prices on agricultural goods cannot fundamentally resolve grain supply problems. In fact, to a certain extent these actions may exacerbate fluctuations or initiate a new cycle of fluctuations. A more feasible choice is to create a mechanism within the system to stabilize the grain market—a regulatory grain fund. This choice will help us achieve our goal of long-term stability in grain supplies, and it will also help safeguard consumers' and farmers' interests. It is also a satisfactory, integrated form that combines planned regulation and market regulation.*

In recent years fluctuations in grain production have resulted in inflated prices for non-staple foods, raising concerns on all sides.

As they have explored strategies for resolving this problem, people have increasingly concentrated their attention on agricultural inputs and pricing policies, believing that depressed grain prices and insufficient inputs into grain production have been the fundamental reason for fluctuations in grain output in recent years. Following from this, they have advocated resolving the problem by increasing inputs into grain production and raising grain prices.

We feel that although increasing inputs and raising prices can stimulate grain production in the short run, they cannot fundamentally resolve the grain supply problem in the long run. This is because cyclical fluctuations in grain production originate in the spontaneous regulatory action of the market mechanism. A more realistic strategy for resolving the grain supply problem is to create a mechanism within the system to stabilize

the grain market. This kind of regulatory mechanism can only stabilize grain supply and demand over a relatively long-term period. This mechanism is a regulatory grain fund.

### I. A New Understanding of the Causes of Fluctuating Grain Production

Grain supply problems are long-term problems that occur in the process of economic development, particularly during industrialization in developing nations. On the one hand, the jump in the urban population ratio and the improving quality of life place greater and greater demands on the grain supply. On the other hand, urbanization of the agricultural labor force and the switch from agricultural accumulation to industry decrease inputs into agricultural production. Grain production is affected and supplies correspondingly decline. This reversal in the supply and demand equation inevitably widens the gap between grain supply and demand and causes grain prices to rise progressively. Consequently, the grain supply problem is not a short-term policy problem, nor is it one that price regulation and temporary increases in inputs can solve.

As a commodity entering the market, grain is like any other commodity. Its price is determined by the ratio of supply to demand, and these in turn are regulated by price. Because of the mutual interaction of pricing and supply and demand, grain production displays cyclical fluctuations in the marketing process. This kind of cyclical fluctuation is a general pattern in commodity production and exchange, but because the features of grain production differ from those of other commodities (primarily industrial goods), fluctuations in grain production have their own characteristics. Grain production combines a natural production process and an economic production process. A grain's ecological life cycle determines the length of its production cycle (which is generally one year). People cannot lengthen or shorten this cycle. Within one year, the inputs of labor, funding, and other key production factors cannot be recouped or diverted. Consequently, one characteristic of the scale and composition of output is that they cannot be changed within the production year. Thus, price regulation has a delayed effect on grain production. Generally speaking, grain prices in the current year are set based on supply and demand arising out of production in the previous year. Moreover, the current year's grain prices will give rise to next year's inputs and production scale. Thus, grain production fluctuates in concert with fluctuations in the previous year's grain prices, and the period of fluctuation is longer for grain than for other commodities.

After grain production in China became subject to market regulation, obvious cyclical fluctuations became apparent in grain output and prices. Grain production is quite decentralized in China, and the market mechanism is not 100 percent sound. Production methods are also quite backward and some systems are imperfect. These factors have exacerbated fluctuations in grain production.

Of course, decreasing agricultural inputs and declining grain prices are also causes of cyclical fluctuations in grain production. However, based on the foregoing analysis, they do not comprise the fundamental cause.

### II. New Thoughts About Grain Policies

Price regulation and short-term increases in inputs not only do not contribute to a fundamental solution for the grain supply problem, in fact to a certain extent they may exacerbate the range of fluctuations or initiate a new cycle of fluctuations.

Simply expanding agricultural inputs stimulates grain production and can easily cause grain development to get caught in an upward spiral of "increasing inputs—increasing supplies—declining prices—insufficient supplies—increasing inputs." What particularly needs to be pointed out is that in the process of industrialization, agriculture and industry will always be embroiled in a scramble for investments. This means that the capacity to increase agricultural inputs is inevitably limited. Even if agricultural inputs are expanded, it will provide only a temporary, short-term stimulus. Once this stimulus is lost, grain output will bog down again.

Relying only on price increases to resolve the current grain supply problem is not only financially difficult, it also may cause the grain market to get caught up in a cycle of "increasing procurement prices—increasing supplies—declining prices—increasing procurement prices." As a result, price increases do not alleviate fluctuations in grain supplies, rather they exacerbate them; they do not eliminate cyclical fluctuations, rather they ensure that this phenomenon will increasingly worsen.

The cycle of "grain selling difficulties—grain procurement difficulties—grain selling difficulties" that appeared in China from 1979 to 1987 also demonstrated the effects of this policy. That cycle of fluctuations significantly affected farmer enthusiasm for growing grain. Farmers' agricultural inputs wavered as grain prices fluctuated.

Right now we must establish a grain production regulatory mechanism to resolve the following issues: 1) To maintain reasonable grain prices and safeguard farmers' basic incomes from grain production; 2) To level out fluctuations in grain yields and prices; 3) To see to it that grain supplies are stabilized at a certain level based on what is needed for national economic growth. Applying financial mechanisms and making use of a grain production regulatory fund will undoubtedly help to gradually resolve the above issues.

### III. A Tentative Plan For Establishing a Regulatory Grain Fund

A regulatory grain fund is a special government-established fund of set size that is used to apply regulatory

methods to intervene in and adjust the grain market. In this way it achieves our objective of long-term stability in grain supplies.

1. First we must establish a regulatory grain fund. Funding for a regulatory grain fund may come from a combination of public financial appropriations, bank loans, and money raised through other means.

Simultaneously, the state must set aside a portion of the grain to serve as a regulatory reserve. The scale of this grain reserve can be set within the range of grain fluctuations over the years.

2. Then we must set up a bureau to manage the regulatory grain fund. A specially established organization—the regulatory grain fund bureau—should control the regulatory grain fund. This bureau would be a management organization that executes the state's functions of macroeconomic regulation and control over grain production. It would set up branch organizations in every grain collection and distribution center and in trading markets. Its basic functions would be to handle grain, regulate grain supply and demand, and restrain market prices; to maintain stability on the grain market and safeguard the interests of producers and consumers; to monitor and follow the market and, when warranted, to control market trends and the grain production situation; and to set and adjust regulatory prices based on reasonable pricing principles.
3. Next we must set regulatory grain prices. Regulatory grain prices can be differentiated into a highest price limit and a lowest protective price. The lowest protective price is the state-determined lowest grain price. In order to safeguard farmers' interests, when the market price falls below this lowest price, the state prevents the price from declining further and allows farmers to sell unlimited quantities at the lowest protective price. The highest price limit is the state-determined highest grain price. When the market price rises above this limit, the state releases grain at the highest price limit and prevents prices from inflating further.

The basic principle for setting regulatory grain prices is as follows. First, the lowest protective price must be able to compensate farmers for the cost of grain production and allow them some profit, and it must be able to stabilize further grain planting without resulting in a reduction in grain production due to low prices. Second, the highest price limit must be within the range of what consumer pockets can bear, but at the very least must be able to compensate shipping costs and aid the process of industrialization and labor conversion. Third, based on the fact that in China the grain supply problem is a long-term issue, the range between upper and lower limits of regulatory grain prices can be relaxed somewhat, but cannot be allowed to exceed the cost of industrial transformation.

4. The characteristics of regulatory grain pricing. The major characteristic of regulatory grain pricing is that it is based on the market mechanism. It conforms to the rapid changes brought about by the market mechanism, and it ultimately achieves the objective of market regulation and stabilization. Simultaneously, grain prices remain relatively stable within the regulatory price range, and do not serve to discourage farmers from growing grain. Another feature of regulatory grain pricing is that the degree to which it functions is directly proportional to the degree of market deregulation—the more open the grain market, the more comprehensive are the functions and the greater are the regulatory effects of regulatory grain pricing. Finally, regulatory grain pricing satisfactorily integrates planned regulation and market regulation. This is the practical result of applying an active economic strategy—one in which "the state regulates the market and the market guides enterprise"—to grain production.

12510

**Beijing Increases Food Production**  
*OW0309070488 Beijing XINHUA in English  
0635 GMT 3 Sep 88*

[Text] Beijing, September 3 (XINHUA)—Production of non-staple food in the outskirts of Beijing rose by an average of more than 10 percent in the first half of the year, according to today's BEIJING SCIENCE AND TECHNOLOGY NEWS.

Supplies of vegetables reached 375,000 tons, up 11 percent over the same period last year. Milk rose by almost 20 percent to reach 90,000 tons. Production of eggs increased by 35.5 percent to 90,000 tons. Production of poultry, beef and pork also increased.

**Heilongjiang Beet Harvest**  
*OW0209015088 Beijing XINHUA in English  
0119 GMT 2 Sep 88*

[Text] Harbin, September 2 (XINHUA)—Northeast China's Heilongjiang Province is set to produce 5 million tons of beets this year, which will be its highest ever.

Although 1 million mu of the province's 6.15 million mu (1 hectare = 15 mu) of beet-growing areas have been affected by waterlogging, the area to be harvested is still bigger than 5 years ago, according to Zhang Enyu, director of the provincial sugar-producing industry corporation.

The beet-growing areas in the province increased from 1979's 1.2 million mu to 1983's 5.7 million mu.

Zhang estimates that the province will earn 20 million yuan in profits and farmers will earn 600 million yuan in income this year.

**Description of Air Force Missile College**  
*40050447a Beijing BINGQI ZHISHI (ORDNANCE KNOWLEDGE) in Chinese No 4, 15 Jul 88 p 29*

[Text] The PLA Air Force Missile College is a comprehensive high-level military institute which cultivates advanced engineering and technical personnel along with military commanders and cadres for the Air Force's missile units and related departments. It is one of the important educational institutes in the country and grants a Master's degree.

The College is located in Sanyuan Xian, Shaanxi. In its 30 years of ceaseless toil since it was established in 1958, it has formed a cadre of teachers with rich experience, strong technical ability, and high scientific standards. The College now has 470 instructors, of whom 73 are professors or deputy professors, and 200 are lecturers. It has four divisions: Radar Engineering, Computer Engineering, Missile Engineering, and Military Command. Undergraduate specializations include radar engineering, ECM technology, information processing technology, computer applications, automated command technology, missile control and testing, rocket technology, and missile systems. Graduate majors include communications and electronic systems, electromagnetic fields and microwave technologies, computer applications, flight navigation control systems, fuzing technology, military technology operations research, flight mechanics, and structural mechanics.

To adapt to requirements of national defense modernization, the College has actively developed scientific research work while carrying out its educational mission. In recent years it has made more than 700 scientific achievements, many of which filled in previous domestic gaps. These include the "701 single pulse tracking system" which won a national S&T Conference award, the "HQ-2 guidance radar mobile target tracking facility" which received a national advanced S&T award, and the "HQ-2 guidance radar maintenance reform" which received a PLA advanced S&T award.

Teaching facilities at the College are complete, teaching methods are advanced, and experimental and library facilities are quite good. The beautiful campus is an excellent place for hard study and research.

Every year the College enrolls more than 600 students from all locales and from within the PLA. Upon graduating, they are distributed throughout the Air Force. We warmly welcome applications from youths who desire to devote themselves to advanced defense technology.

**Specifications of HQ-2J Surface-to-Air Missile**  
*40050447b Beijing BINGQI ZHISHI (ORDNANCE KNOWLEDGE) in Chinese No 4, 15 Jul 88 p 29*

[Text] The HQ-2J missile system is a semi-fixed, all-weather, medium-range air defense system which is used primarily to protect ground targets such as important

cities and lines of communication. It is used against strategic bombers, tactical bombers, all types of reconnaissance planes, and under special circumstances can be fired at high altitude reconnaissance balloons, cruise missiles, and certain naval or land targets. It has good air defense capability, broad coverage, high lethality, simple operation, convenient maintenance, and a low cost.

This weapons system consists of the missile, guidance station, launcher, and ground support equipment. Each basic combat unit has a guidance radar station, 6 launchers, 6 transport/loading vehicles, and 24 missiles.

The HQ-2J has both head-on and pursuit attack capabilities. It uses all-way command guidance with several guidance methods which can be selected. The guidance radar can simultaneously direct 3 missiles to a single target.

Specifications are as follows:

Operational altitude: 0.5-27km

Lateral range: 0-28km

Length: 10.84m

Warhead: 118kg of HE

Initial velocity: 500-560m/sec

Slant range: 5-34km

Maximum approach angle: 70°

Total missile weight: 2326kg

Guidance method: radio command

Terminal velocity: 1150m/sec

Propulsion: solid propellant booster and liquid propellant sustainer

Probability of a hit: 95% (3 rounds); 70% (single round)

**Strategic Missile Communications Disrupted by Thieves**

*40050445a Beijing JIEFANGJUN BAO in Chinese 20 Aug 88 p 3*

[Text] In recent years, a Second Artillery Corps [China Strategic Rocket Force] unit in a mountainous region of southern Shaanxi has had a large quantity of first echelon national defense communications lines stolen, causing great financial losses for the unit and affecting the smooth completion of normal work and national defense construction.

According to statistics, between December 1985 and June 1988, the 60-km communication line running from this unit to Post \*\* was vandalized 350 times. Thieves made off with more than 13,600 meters of copper wire and 500 meters of iron wire, causing losses exceeding 100,000 yuan. Military communication lines in the Daba Shan region were vandalized 16 times between January and June of this year, with 4,400 meters of copper wire and 400 meters of iron wire stolen. This severed communications for a total of 1 month and resulted in losses of 20,000 yuan. The criminals sold the wire as used material to make a profit.

To safeguard open communications, this unit and the locale cooperated in contracting farmers to guard important areas while compulsory servicemen within the unit were contracted to guard the lines. Since October of last year, the military and civilians have cooperated closely and captured two criminals. However, in a dozen nearby villages, including Xinpu Xiang, Xinmin Xiang, and Puzhen Xiang of Hanzhong City, as well as Liulin Zhen in Chenggu Xian, vandalism of communication lines continues to occur.

I appeal to all relevant departments during their propagation of legal knowledge in agricultural villages, to conscientiously follow the "Regulations on Protecting Communication Lines" issued by the State Council and the Central Military Commission, and to educate citizens to increase their national defense consciousness, to consciously preserve military communication lines, and to severely punish those who damage such lines. (signed) Li Humin [2621 5706 3046], headquarters of a Second Artillery unit.

**New Chemical Defense Equipment To Be Issued**  
40050445b Beijing JIEFANGJUN BAO in Chinese  
21 Aug 88 p 1

[Text] The single type of gas mask and simple chemical defense equipment that the PLA has used for many years will be replaced by a new generation of chemical defense equipment. On the eve of Army Day, a unit of the Beijing Military Region successfully tested new equipment for the General Staff Department in a combat exercise under conditions of an "enemy" chemical attack, achieving satisfying results.

This set of new equipment to be supplied to combined arms units and fendui includes protective materials for skin and toxin-resistant clothing, as well as new disinfecting devices, sprayers, and reconnaissance kits.

The protective materials for skin and toxin-resistant clothing are designed to be used only once, and are quite advanced total protection materials for the PLA. They are suitable for infantry carrying weapons as well as special troops such as artillery. They offer good protection, ease of use, and can accommodate all types of weapons and equipment. The new test kits, disinfectant pans, and sprayers to be issued to companies and platoons will allow combat fendui which have encountered a nuclear or chemical attack to quickly assess conditions and take protective measures, and also to independently decontaminate contaminated fortifications, ground, weapons, and vehicles.

**Retired Cadres Settle in Xinjiang**  
40050445c Beijing JIEFANGJUN BAO in Chinese  
21 Aug 88 p 3

[Excerpts] As of mid-August, the Xinjiang Military District has had a total of 680 retired cadres who have formally decided to settle north and south of the Tian Shan. Among these are former Nanjing Military Region Deputy Commander Zhang Xiqin (retired 1986), Chengdu Military Region Deputy Political Commissar Jin Zhongpan (retired 1987), and Southern Xinjiang Military District former Logistics Department director Su Zairong (retired 1986).

**Nanjing MR Creates Hotline for Economic Crimes**  
40050445d Beijing JIEFANGJUN BAO in Chinese  
24 Jul 88 p 1

[Summary] To promote honesty in workers at all levels and ensure the smooth progress of reforms, the Military Procuratorate of the Nanjing Military Region has established a center to receive reports of economic crimes. People can report crimes by dedicated telephone, mail, or in person. The center is offering material rewards for the reporting of crimes. It has also set up hotline stations at all other military procuratorates subordinate to the military region.